AECON GROUP INC. THIRD QUARTER REPORT 2005

Nine months ended September 30, 2005

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AECON

Dear fellow shareholders,

Last quarter, I reported to you that Aecon's performance was improving and that our turnaround had taken hold. Today, I can again report significant improvement in our results and a number of positive trends and milestones that bode well for Aecon's future.

All three of our operating segments reported improvement from the third quarter last year – each of them earning operating profits in the quarter and year-to-date. Aecon Buildings reported its third consecutive profitable quarter after four quarters without a profit in 2004. Aecon Industrial, after a slow start to the year, made great strides in the third quarter due in large part to continued and growing success in tapping the huge oilsands market in Northern Alberta. And Aecon Civil and Utilities continued its strong year with improvements in both the roadbuilding and utilities construction sectors.

There were also a number of specific successes in the third quarter.

- The signing of financing documents for the new Quito International Airport project took place on August 24, 2005 among Aecon, its concession partners and the project lenders. The signing sets the stage for financial close and the start of construction.

- Aecon Civil and Utilities was awarded a $60 million contract by the Ministry of Transportation of Ontario for work on the Queen Elizabeth Way ("QEW") in the Hamilton area. The contract will complete the QEW and Red Hill Valley Parkway interchange. Construction began in September 2005 and completion is scheduled for the summer of 2009.

- Aecon Civil and Utilities was selected by the Toronto and Region Conservation Authority to build a $19 million breakwater wall to revitalize Toronto's waterfront in the Western Beaches area. The breakwater wall will be constructed with armour stone, weighing two to six tonnes each, supplied by the Aecon Marmora Quarry.

- Tolling and highway operations continue to function well on the Cross Israel Highway. Traffic is ramping-up as projected and has continued to exceed 70,000 trips per day through September 2005.

- Aecon Buildings in Ottawa will act as Construction Manager for the development of The Currents, a luxury condominium complex valued at $14.5 million. Aecon also negotiated with the Great Canadian Theatre Company to act as Construction Manager for its $3.5 million project to include the construction of a 250-seat theatre to be located in The Currents.

- Aecon Buildings in Seattle was awarded the Construction Management contract for a $15 million US addition to the Suquamish Clearwater Casino. Aecon previously completed the construction of the casino and parking garage. The addition will house an 85-room hotel. Work is expected to be finished in summer 2006.

- Aecon Cegerco in Montreal was named General Contractor for the $5.7 million Technopôle Angus Office Building Phase VII. The project aims to attain Gold Level certification through the Leadership in Energy and Environmental Design Green Building rating system issued by the U.S. and Canadian Green Building Councils.

- Innovative Steam Technologies was awarded a contract to design and fabricate a once through steam generator for South Africa's first combined-cycle cogeneration project. Worth over $2 million, the generator will be built for Mondi Business Paper. It is estimated the project will be completed by the end of June 2006.

- Aecon Industrial has substantially completed the rebuild of the damaged portion of Suncor's oilsands facility in Fort McMurray, Alberta. Aecon was the largest contractor on site for this important rebuild job and the project contributed to the strong performance of the Western Operations business unit of the Industrial segment.

- Contract awards of $299 million were booked in the third quarter, an increase of $32 million from the same quarter last year.

As we enter the final quarter of the year, I expect to see year end improvements in profit contribution from each of our three segments as compared to the results reported last year.

Infrastructure

Revenues from the Infrastructure segment decreased marginally in the third quarter compared to last year as revenue gains in roadbuilding and utilities operations were offset by declines from our heavy civil operations in Quebec. Runway lighting work at Toronto airport, gas pipeline construction and communications work were the principal contributors to the revenue increase. Revenues from our Quebec operations fell mostly as a result of the substantial completion of the hydroelectric dam project in Toulnustouc.

Income before interest and income taxes from the Infrastructure segment fell $1.8 million as compared to the same quarter last year, as increases in earnings of $1.1 million from roadbuilding operations, $0.8 million from utilities operations and $0.8 million from Quebec operations were offset by a $4.5 million decline in earnings from other heavy civil operations. The decline in other heavy civil operations was primarily due to the substantial completion last year of the Cross Israel and Nathpa Jhakri projects, both of which generated positive margins.

The signing in August of the financing documents for the Quito International Airport represented an important step forward. The conditions precedent enumerated in these documents are expected to be satisfied in the fourth quarter, with the flow of funds to the project expected late in the quarter or early in the new year. Under Aecon's accounting policy for large multi-year contracts, construction profit is recognized only when progress reaches a stage of completion sufficient to reasonably determine the probable results (generally when the contract is 20% complete). This milestone is not likely to be reached on the Quito project until early in 2007.

Results from Aecon's civil construction operations in Quebec in 2005 are expected to reflect no material developments with respect to the Eastmain project. We continue to believe that the Aecon/Hochtief joint venture building the project will be successful in recovering from the client the value of unpriced change orders associated with the project but acknowledge that an ongoing risk remains with respect to this project.

Tolling and highway operations are functioning well on the Cross Israel Highway, with traffic volumes continuing in the range anticipated. The projected after tax internal rate of return on our investment in this concession remains in the 14% range assuming full exercise of the State and lender options. While this project continues to create economic value, no material accounting income will be booked until dividend payments begin, anticipated to be in 2009.

Buildings

Revenues in the Buildings segment increased by $17 million, or 17.7%, from the same quarter last year. Volume increases in the Greater Toronto Area of $27 million and in Montreal of $6 million were partially offset by a $16 million decline in revenues generated in the United States through our Seattle office. Revenues from the balance of the Buildings operations were approximately the same as in the previous year.

Operating results in the third quarter were significantly better than last year, confirming a significant turnaround with now three consecutive profitable quarters. An operating profit of $1.5 million was realized in the quarter compared to an operating loss of $2.3 million in 2004.

Approximately $2.0 million of the improvement relates to the Ottawa business unit and $1.5 million to improvements at Aecon Cegerco in Montreal. In Seattle, rather than producing lower profits than last year as might be expected because of the decline in revenues, a $0.2 million improvement was achieved due primarily to tight cost controls.

These results further increase our confidence that the turnaround in Aecon's Buildings segment is under way and that we will see a return to profitability in this segment in 2005.

Industrial

Third quarter revenues of $83 million from the Industrial segment were approximately double those reported in the same quarter in 2004. The most significant increase occurred in Western Canada where revenues of $52 million were $49 million ahead of last year due primarily to major demolition and refurbishment work at an oilsands facility in Fort McMurray, Alberta.

Bolstered by two large projects, fabrication revenues in Ontario and Eastern Canada were also higher, while revenues from industrial construction in Ontario and Eastern Canada were down from last year. Revenues from Innovative Steam Technologies ("IST"), which sells once through steam generators and licenses its technology, were also down compared to the same quarter in 2004.

Our Industrial segment generated $2.5 million in operating profit in the quarter, compared to a loss of $1.5 million reported in 2004. Higher revenues in Western Canada resulted in improved earnings there, with a profit of $3.1 million for the quarter compared to a loss of $1.3 million last year. Similarly, the revenue increase from fabrication work in Ontario and Eastern Canada resulted in a reduced loss in 2005. Triggered principally by the drop in revenues noted above, profit from industrial construction in Ontario and Eastern Canada declined in the third quarter of 2005, as did results from IST, which reported a loss of $0.5 million in the third quarter compared to a profit of $0.4 million in 2004.

Although Aecon's Industrial earnings in the first nine months of 2005 are below those reported in the same period last year, a significant improvement in profit contribution is expected for the fourth quarter and full year as compared to 2004. Looking ahead, Ontario's need for increased generation capacity, including the recently announced refurbishment of Bruce Power's nuclear generation facilities, will likely lead to significant new opportunities for our industrial construction business.

In addition, the strong presence Aecon has established in the Northern Alberta oilsands positions us very well for continued growth in this market where billions of dollars are expected to be invested each year over the next decade.

Overall, I expect that stronger operating results in our core businesses will drive substantial improvement in our bottom line results for 2005.

The risk remains that the gains made throughout 2005 will not be sufficient to provide positive net income this year, and that a net loss may have to be reported at year-end. Perhaps even more important than the profit or loss number achieved in 2005 is the underlying strength of the company, the direction we are headed in and the market outlook we face going forward.

Our core markets of civil, utility, industrial and buildings construction in Canada are all demonstrating improved conditions - and expectations are that these markets will continue to strengthen.

We've already seen a dramatic turnaround and return to profitability in our Buildings division - and strong year-over-year improvement is expected in both our Industrial and Civil and Utilities divisions this year.

In short, the strategic, operational and management changes made over the past two years are taking hold and delivering improved results. We are not there yet, but the results achieved so far this year give us confidence that we are clearly on our way.

On behalf of the Board of Directors,

John M. Beck
Chairman and CEO
November 8, 2005

Aecon Group Inc.

Management's Discussion and Analysis
of operating results and financial condition

September 30, 2005

Management's Discussion and Analysis of operating results and financial condition ("MD&A")

The following discussion and analysis of the consolidated results of operations and financial condition of Aecon Group Inc. ("Aecon") should be read in conjunction with the Company's Interim Consolidated Financial Statements and Notes (which have not been reviewed by the Company's external auditors) and in conjunction with the Company's annual MD&A for 2004. This interim MD&A has been prepared as of November 8, 2005. Additional information on Aecon is available through the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com and includes the Company's Annual Information Form and other security filings.

RESULTS OF OPERATIONS BEFORE DISCONTINUED OPERATIONS

The following commentary, unless otherwise indicated, discusses the results of operations before discontinued operations.

Introduction

Aecon operates in three principal segments within the construction industry – Infrastructure, Buildings and Industrial.

The construction industry in Canada is seasonal in nature due to weather conditions, with less work performed in the winter and early spring months. Accordingly, Aecon experiences a seasonal pattern in its operating results with the first quarter of the year typically reflecting lower revenues and profits than the other three quarters. Therefore, results in any one quarter are not necessarily indicative of results in any other quarter or for the year as a whole.

Consolidated Financial Highlights

	Three months ended September			Nine months ended September		
$ millions	2005	2004	% Change	2005	2004	% Change
Revenues	$ 340.8	$ 290.0	17.5%	$ 796.6	$ 743.8	7.1%
Operating profit (loss)*	4.9	0.4	996.0%	0.1	(7.3)	n/a
Extraordinary Gain before income taxes	-	-	-	4.1	-	-
Income/(loss) before interest and income taxes	4.9	0.4	996.0%	4.2	(7.3)	n/a
Interest expense	2.4	1.0	134.2%	6.7	2.8	137.5%
Income/(loss) before income taxes	2.5	(0.6)	n/a	(2.5)	(10.1)	(75.7)%
Return on revenue	1.4%	0.2%	832.8%	0.0%	(1.0)%	n/a
Backlog - September 30	$ 488.5	$ 545.9	(10.5)%			

*Operating profit/(loss) represents the profit/(loss) from operations before extraordinary items and before interest, income taxes and discontinued operations.

Revenues from continuing operations for the three months ended September 30, 2005 amounted to $340.8 million, representing an increase of $50.8 million or 17.5% over the same period last year.

Revenues increased in each of the Buildings and Industrial segments by $17.2 million and $42.3 million respectively, while Infrastructure revenues were down $8.3 million in the quarter.

For the first nine months of the year, revenues from continuing operations of $796.6 million were higher than 2004 by $52.8 million, as increases in the Industrial and Buildings segments offset a decline in Infrastructure revenues. Results for each of the three principal operating segments are discussed separately under Reporting Segments.

Gross margins (revenues less costs and expenses) as a percentage of revenues increased from 4.2% in the third quarter of 2004 to 5.7% in the current quarter, reflecting an increase in returns from all business segments. Excluding the impact of foreign exchange gains and losses, all of which were unrealized and, as such, had no impact on cash, gross margins would have been 5.9% in 2005 compared to 4.9% in 2004.

Gross margins for the first nine months of 2005 were 5.3% compared to 4.5% in 2004 as improved returns from the Infrastructure and Buildings segments offset lower returns from the Industrial segment. The results for both periods included unrealized non-cash foreign exchange losses of $1.1 million and, as such, the comparison between the two periods was not distorted by these losses. Marketing, general and administrative expenses ("MG&A") amounted to $12.2 million in the third quarter of 2005, which was $2.5 million higher than the same quarter last year. When the impacts on MG&A of foreign exchange (a negative year-over-year impact of $2.6 million) and one-time 2004 costs of $0.8 million for the relocation and consolidation of Aecon's offices in Toronto are removed, MG&A shows an increase of $0.7 million compared to last year. The increase results primarily from: the introduction (retroactive to March 2005) of a long-term incentive plan to attract and retain key employees (which plan is entirely based on and dependent upon profitability), which increased costs during the quarter by $1.3 million; lower MG&A costs of $0.6 million for the Infrastructure segment, mostly as a result of lower bid costs; lower MG&A costs of $0.4 million for the Buildings segment resulting from targeted cost reductions; and higher MG&A costs for the Industrial segment, mostly related to the expansion of this segment's Western operations. For the nine months, MG&A was $1.6 million higher than 2004. Similar to the quarter, foreign exchange (a loss of $1.1 million in 2005 versus a gain of $2.5 million in 2004) and one-time 2004 relocation and consolidation costs of $3.6 million had a significant impact on the year-over-year comparison. Exclusive of these impacts, MG&A for the first nine months of 2005 would have been $36.0 million compared to $34.4 million in 2004. The $1.6 million increase is mostly attributable to the introduction of the key employee long-term incentive plan mentioned above. The Industrial segment was $0.7 million higher than last year, mostly because of higher bid costs as it seeks to expand its presence in the nuclear power market, while MG&A for the Buildings segment was $0.4 million lower because of targeted cost reductions.

Because of the significant impact of foreign exchange on Aecon's results, set out below is a table that shows what the Company's pre-tax income would be if all foreign exchange impacts were removed.

	Three months ended September 30		Nine months ended September 30	
	2005	2004	2005	2004
Income/(loss) before income taxes as reported above	$ 2.5	$(0.6)	$ (2.5)	$ (10.1)
Deduct: Foreign exchange gains	-	-	-	(1.4)
Add: Foreign exchange losses	1.7	0.2	2.2	-
Income/(loss) before income taxes and foreign exchange	$ 4.2	$(0.4)	$ (0.3)	$ (11.5)

Depreciation and amortization amounted to $2.0 million for the third quarter and $5.7 million for the first nine months, both amounts essentially unchanged from the same periods last year.

Net interest expense increased by $1.4 million in the third quarter and rose by $3.9 million in the nine months. Interest on convertible debt, which was $1.4 million higher in the third quarter and $3.4 million higher in the nine months, was the principal contributor to the increases. The Company had two new issues of convertible debentures, $30.0 million in November 2004 and $32.5 million in March 2005. Interest expense related to these debentures has a cash component and a non-cash component. The cash component, $1.3 million in the third quarter and $3.3 million for the nine months, consists of the coupon rate of 8.25%. The non-cash component consists of the amortization (over the five-year life of the debentures) of debt issuance costs and accretion of the carrying value of the debentures. The amortization of debt issuance costs amounted to $0.2 million in the third quarter and $0.7 million for the nine months, while accretion in the carrying value of the convertible debenture amounted to $0.2 million for the third quarter and $0.6 million for the nine-month period ended September 30, 2005. This accretion charge arises because, under Canadian GAAP, the Company had to allocate the proceeds of the convertible debentures to their debt and equity components on a relative fair value basis, resulting in the value of the $62.5 million convertible debentures having a carrying value of $58.4 million at inception. Each reporting period, the Company is required to accrete the carrying value of the convertible debentures such that, at maturity, the carrying value of the debentures will equal their face value of $62.5 million.

In the fourth quarter of 2004, the Company provided a valuation allowance against the net future tax assets that had been recorded at December 31, 2003 and against future tax assets that would otherwise have been recorded in 2004 with respect to its Canadian controlled operations. Consistent with this accounting treatment, future tax assets in respect of further tax losses incurred in 2005 from Canadian controlled operations will be offset by a valuation allowance whereas tax on income from Canadian controlled operations will be offset by a reduction in previously recorded valuation allowances.

Since the Company incurred losses of $11.2 million in its Canadian operations in the first six months of 2005, an additional valuation allowance of $3.8 million was provided against the future tax assets that would otherwise have been recorded. However, in the third quarter ended September 30, 2005, the company recorded income of $5.9 million from its Canadian controlled operations. As a result, the valuation allowance balance was reduced by $2.2 million in order to offset the tax provision of $2.2 million that would otherwise have been recorded.

Based on the foregoing, for the third quarter ended September 30, 2005, a tax expense of $0.4 million (2004 - $0.5 million) was recorded on pre-tax income before extraordinary items and discontinued operations of $2.5 million (2004 – loss of $0.6 million). The 2004 income tax expense relates to income from all operations whereas the 2005 tax expense effectively excludes a provision for income tax of $2.2 million on income from Canadian controlled operations because the provision that would otherwise have been recorded is offset by a reduction of the same amount in the valuation allowance balance.

For the nine months ended September 30, 2005, a tax expense of $1.5 million (2004 - recovery $2.6 million) was recorded on pre-tax losses before extraordinary items and discontinued operations of $6.6 million (2004 - $10.1 million). Similar to the third quarter, the 2004 income tax recovery relates to losses from all operations whereas the 2005 tax expense effectively excludes a provision for income taxes recoverable of $1.6 million because the provision that would otherwise have been recorded is offset by an increase of the same amount in the valuation allowance balance.

Set out below, in tabular form, is a reconciliation between the expected tax recoveries in 2005 and 2004 at statutory income tax rates and the actual reported tax expense in 2005 and tax recovery in 2004 (dollars in thousands).

	Nine months ended September 30	
	2005	**2004**
Loss before income taxes, extraordinary items and discontinued operations	$ 6,582	$ 10,136
Statutory income tax rate	36.1%	36.1%
Expected income tax recovery	(2,377)	(3,661)
Effect on income tax of:		
Valuation allowance against current year's future tax assets	1,623	-
Provincial and foreign rate differentials	47	568
Non-deductible expenses	325	318
Large corporations tax	338	338
Foreign exchange translation (gains) losses	650	197
Other foreign exchange losses (gains)	929	(298)
Other	(43)	(24)
	3,869	1,099
Income tax expense (recovery)	$ 1,492	$ (2,562)

Overall, net income for the three months ended September 30, 2005 was $2.1 million (2004 - net loss of $0.9 million), while for the nine months ended September 30, 2005 there was a net loss of $4.6 million (2004 – net loss of $0.9 million).

Backlog at September 30, 2005 was $488.5 million or $57.4 million lower than the same date last year. On a segment basis, there was a decline of $14.8 million in the Infrastructure segment and a decline of $62.4 million in the Buildings segment, whereas the Industrial segment was higher by $19.8 million. New contract awards of $299.3 million were booked in the third quarter, which compares with $267.3 million in 2004, while for the first nine months of 2005 contract awards of $720.2 million were awarded compared to $743.2 million in 2004. The increase in awards in the third quarter was due to higher awards in the Infrastructure and Industrial segments, which exceeded the decline in awards in the Buildings segment. The decline in awards for the first nine months of 2005 compared to the same period in 2004 was due to lower awards in the Buildings segments, offset partially by an increase in contract awards posted by the Infrastructure and Industrial segments. Further details for each of the segments are included in the discussion below under Reporting Segments.

At September 30, 2005, major projects backlog, which previously was represented by Aecon's two large international projects in India and Israel, is now down to $3.7 million as these two projects are now basically complete. The financial close of the Quito Airport project in Ecuador is projected to add approximately $250 million to major projects backlog.

DISCONTINUED OPERATIONS

In 2004, Aecon sold its 38.75% interest in Canatom NPM Inc., which had been a part of the Industrial segment. Also in 2004, Aecon sold its Footage Tools division and its one-third interest in a small joint venture, both of which were part of the Infrastructure segment. Income from these discontinued operations during the third quarter of 2004 amounted to $0.4 million before income taxes and $0.2 million after income taxes, while income for the first nine months of 2004 amounted to $10.2 million before income taxes and $6.7 million after income taxes (see note 9 to the Interim Consolidated Financial Statements).

Reporting segments

Infrastructure

	Three months ended September 30			Nine months ended September 30		
$ millions	2005	2004	% Change	2005	2004	% Change
Revenues	$ 144.5	$ 152.8	(5.5)%	$ 309.5	$ 321.1	(3.6)%
Segment Operating profit (loss)	4.0	5.8	(31.3)%	4.1	5.0	(17.6)%
Extraordinary Gain before income taxes	-	-	-	4.1	-	-
Income/(loss) before interest and income taxes	4.0	5.8	(31.3)%	8.2	5.0	65.3%
Return on revenue	2.8%	3.8%	(27.3)%	1.3%	1.5%	(14.5)%
Backlog - September 30	$ 175.5	$ 190.3	(7.8)%			

Overall, revenues from the Infrastructure segment decreased marginally in the third quarter as revenue gains in roadbuilding and utilities operations were offset by declines from the segment's Quebec heavy civil operations.

Revenues of $71.9 million from roadbuilding operations during the quarter were $3.0 million higher than last year, reflecting a higher volume of road construction activity moderated somewhat by slower sales of aggregates to third parties. Utilities operations generated revenues of $44.5 million compared to $34.0 million in the third quarter of last year. Runway lighting work at Toronto airport, gas pipeline construction and communications work were the principal contributors to the revenue increase. Revenues from the segment's Quebec operations dropped by $21.0 million, mostly as a result of the substantial completion of a hydroelectric dam project in Toulnustouc. This project generated revenues of $19.5 million in the third quarter of last year compared to $2.1 million this year. Other heavy civil operations generated revenues of $10.4 million, which were almost unchanged from last year.

For the nine months, Infrastructure revenues decreased marginally from $321.1 million in 2004 to $309.5 million this year. Strong revenue gains of $27.5 million from roadbuilding operations and $23.9 million from utilities operations were offset by declines of $33.6 million from Quebec operations and $29.5 million from other heavy civil operations. The higher revenues from roadbuilding operations resulted from a much higher volume of activity generally, driven in part because of exceptional weather conditions compared to last year, but also because of reduced volumes last year when Ontario roadbuilding operations suffered because of a three-week labour disruption in June 2004, as well as the impact of delays in starting existing work and the awarding of new work because of changes in the municipal and provincial governments in the fall of 2003, and the delay and ultimate cancellation of a $22.0 million project to construct a fixed link bridge to the Toronto Island Airport. In addition to airport work and gas pipeline installation, communications work, primarily fiber installation, contributed to the improvement in utilities revenues. The reason for the year-over-year drop in revenues from Quebec operations is essentially the same as that cited above for the third quarter change. The decline in revenues from other heavy civil operations reflects the completion of the Cross Israel Highway and Nathpa Jhakri projects, which together generated revenues of $39.7 million in 2004 compared to $0.8 million this year. Partly offsetting this decline was an increase in revenues of $9.7 million mostly from Aecon's share of revenues from the company that operates the Cross Israel Highway on behalf of its owners.

Income before interest and income taxes from the Infrastructure segment was $4.0 million in the quarter, which is $1.8 million below the same quarter last year, as increases in earnings of $1.1 million from roadbuilding operations, $0.8 million from utilities operations and $0.8 million from Quebec operations were offset by a $4.5 million decline in earnings from other heavy civil operations. The increases in earnings from roadbuilding and utilities operations were largely reflective of the increases in revenues noted above. Despite the large drop in revenues from Quebec operations, earnings were higher than last year mostly because of a decrease in the projected loss on the Toulnustouc project. Conversely, while revenues from other heavy civil operations were virtually unchanged from last year, earnings dropped by $4.5 million, in part because revenues in 2004 were principally derived from the Cross Israel and Nathpa Jhakri projects, both of which generated positive margins, whereas most of the revenues in 2005 come from the company that operates the Cross Israel Highway which, as expected, has generated negligible earnings. In addition, included in the 2004 third quarter earnings was $2.6 million resulting from an upward revision in the projected profit from the Nathpa Jhakri project.

For the nine months, income before interest and income taxes amounted to $8.2 million, which is a $3.2 million improvement over last year. On a year-over-year basis several large items affected the results between 2005 and 2004. Included in the 2005 results is an extraordinary gain of $4.1 million resulting from the acquisition by Aecon of its partner's share in a joint venture whose interests include a one-third share in the joint venture that constructed the Cross Israel Highway. Also, earnings from roadbuilding operations in 2005 included gains of $3.8 million related to claim settlements, whereas no claim settlements were recorded 2004. Finally, included in 2005 is a gain of $0.9 million from the sale of a 40% interest in the company that has a 51% interest in the entity that operates the Cross Israel Highway and a gain of $0.7 million related to the partial recovery of bid costs incurred in the second half of 2004. On the other hand, included in the 2004 results are $4.0 million in earnings from the Cross Israel Highway project and $2.6 million in earnings from the Nathpa Jhakri project, both as a result of increases in the expected profits at completion of these projects. Also in 2004, Quebec operations recorded a profit of $3.8 million on the Eastmain hydroelectric project in Quebec, however, as a result of a decision taken in the fourth quarter of 2004 to reduce the profit estimate on this project to $0, these profits were subsequently reversed in the fourth quarter of 2004 and no profit from this project has been recorded in 2005. Foreign exchange also affected the comparison between 2005 and 2004 with net losses of $1.1 million in 2004 compared to net losses of $1.6 million in 2005. If the impact of all of these items were removed from the results of both years, the results for 2005 would be $5.2 million better than 2004, an increase of $1.5 million over the reported improvement of $3.7 million.

On a sector basis, earnings from roadbuilding operations improved by $6.7 million and earnings from utilities operations improved by $2.8 million. In addition to improved volumes for both these sectors, roadbuilding operations also benefited from claim settlements of $3.8 million (noted above and included within the $6.7 million improvement), while utilities operations benefited from better equipment utilization. Earnings from Quebec operations were better by $1.0 million. The improvement was partly due to losses of $1.5 million recorded in 2004 on a substantially completed highway construction project in Quebec and an increase in 2004 of $1.4 million in the projected loss from the Toulnustouc project. There was also a $0.8 million profit adjustment in 2005 resulting from the close-out of a project that was completed in 2003, a $0.4 million contribution from a claim settlement and, as referenced previously, a $0.7 million decrease in the projected loss from the Toulnustouc project. Partly offsetting these improvements was a drop in earnings of $3.8 million from the Eastmain project (noted above). Other heavy civil operations generated earnings of $0.2 million in the first nine months of 2005, a decrease of $6.9 million from last year. When the extraordinary gain of $4.1 million (noted above) is removed from the 2005 results, the decrease in earnings moves to $11.0 million. Of the $11.0 million decline, foreign exchange differences accounted for close to $3.0 million with the balance mostly related to lower earnings from the now completed Cross Israel and Nathpa Jhakri projects.

The Company's interim MD&A covering the results for the first six months of 2005 included a detailed discussion on the Company's participation in the Eastmain project in Quebec, in which Aecon has a 50% joint venture interest, and the Nathpa Jhakri project in India, in which Aecon has a 45% interest. No material developments with respect to these projects has occurred since then and management believes that its accounting for these projects, which was described in its last interim MD&A, is still appropriate.

Backlog of $175.5 million at the end of September 2005 declined by $14.8 million from the same time last year with most of the reduction related to the Toulnustouc and Eastmain projects in Quebec. New contract awards of $178.5 million were booked in the third quarter of 2005, which compares with $103.2 million in the third quarter of 2004, while new contract awards of $333.3 million for the first nine months of 2005 compares to $292.5 million in 2004. The increase in awards for the third quarter compared to the same period in 2004 relates principally to roadbuilding operations, where awards from one quarter to the next can be significantly different because of timing. Witness to this is the fact that roadbuilding backlog at the end of September 2005 was only slightly ahead of last year. The increase in awards for the first nine months compared to last year is totally attributable to roadbuilding and utilities operations and is consistent with the higher overall volume of activity experienced by both these sectors in 2005. At September 30, 2005, major projects backlog, which previously was represented by Aecon's two large international projects in India and Israel, is now down to $3.7 million as these two projects are now basically complete. The financial close of the Quito Airport project in Ecuador is projected to add approximately $250.0 million to major projects backlog. It is notable that significant and increasing commitments made to Aecon based on partnering agreements do not necessarily show up as firm backlog for external reporting purposes primarily due to the degree of uncertainty regarding the exact amount of work than can be expected. The effective backlog is therefore greater than what is reported to the extent that the expected volume of committed work is significant.

Buildings

Financial Highlights

	Three months ended September			Nine months ended September		
$ millions	2005	2004	% Change	2005	2004	% Change
Revenues	$ 114.5	$ 97.2	17.7%	$ 299.8	$ 279.5	7.3%
Segment Operating profit (loss)	1.5	(2.3)	n/a	2.1	(6.1)	n/a
Return on revenue	1.3%	(2.4)%	n/a	0.7%	(2.2)%	n/a
Backlog - September 30	$ 241.7	$ 304.1	(20.5)%			

Revenues in the Buildings segment increased by $17.3 million or 17.7% from the same quarter last year. The volume of work performed in the Greater Toronto Area ("GTA") was $27.0 million higher than last year, while there was a $5.8 million revenue increase from Montreal operations. Revenues generated in the United States through the segment's Seattle office declined by $15.7 million. Revenues from the balance of the Buildings operations were up by $0.1 million. For the nine months, revenues were up $20.3 million, with increased volumes from the GTA and Montreal of $42.1 million and $19.3 million respectively, while revenues from Seattle were down $35.9 million. Other operations were down $5.1 million. The increased volumes from the GTA for both the third quarter and year-to-date are due principally to work on three very large projects, whereas no similar type projects were in progress last year. The revenue increase from Montreal for the quarter is mostly attributable to new work, while the year-to-date increase reflects a combination of new work and the acquisition of the assets of Cegerco CCI Inc. in the second quarter of 2004. The decline in revenues from Seattle reflects a combination of delays in awards for casino projects and less new work generally.

Operating results in the third quarter were significantly better than last year, confirming a significant turn around with now three consecutive profitable quarters after four consecutive quarters of losses were evidenced in 2004. An operating profit of $1.5 million was realized in the quarter compared to an operating loss of $2.3 million in 2004. Approximately $2.0 million of the improvement relates to losses incurred last year in Ottawa by Westeinde Construction Ltd. ("Westeinde"), which was acquired in November 2003**.** Consistent with the increase in revenues, operating profits from the GTA and Montreal were $0.1 million and $1.5 million higher respectively than the third quarter last year. In Seattle, rather than producing lower profits than last year as might be expected because of the decline in revenues, a $0.2 million improvement was achieved because of tight cost controls.

For the nine months, the Buildings segment generated an operating profit of $2.1 million compared to an operating loss of $6.1 million last year. Of the $8.2 million improvement, $3.6 million relates to Westeinde/Ottawa, $2.5 million to the GTA and $2.8 million to Montreal, all for reasons similar to those cited above for the third quarter improvement.

Backlog of $241.7 million at the end of September 2005 was $62.4 million or 20.5% lower than at September 30, 2004, with the GTA market showing the largest decline. GTA backlog was $65.2 million below last year due largely to a greater volume of new awards in the first nine months of 2004, including Terminal 3 at Pearson Airport and a food distribution warehouse project, whose combined backlog was $101 million at the end of September 2004. In comparison, the only significant lump sum award during the first nine months of 2005 was University of Guelph Phase 2, of which $48.9 million remained in backlog at the end of September 2005. Part of this reducing backlog results from the strategic focus on construction management projects, and a reduced focus on lump sum contracts, in order to achieve targeted improvements in profitability that have been established for the Buildings division. Outside of GTA there was a $25.4 million decline resulting from the 2005 completion of an embassy and a paramedic centre project in Ottawa, a large casino project in Seattle and various projects in Manitoba. As an offset to the declines, backlog was higher by $28.2 million at the end of September 2005 compared to the end of September 2004 in Montreal, Halifax and Vancouver as a result of an increase in the volume of new contracts.

Industrial

Financial Highlights

	Three months ended September 30			Nine months ended September 30		
$ millions	2005	2004	% Change	2005	2004	% Change
Revenues	$ 83.0	$ 40.7	104.1%	$ 190.7	$ 145.0	31.5%
Segment Operating profit (loss)	2.5	(1.5)	n/a	2.4	3.6	(32.3)%
Return on revenue	3.0%	(3.7)%	n/a	1.3%	2.5%	(48.5)%
Backlog - September 30	$ 71.3	$ 51.5	38.5%			

Revenues of $83.0 million from the Industrial segment in the third quarter of 2005 were $42.3 million or 101.1% higher than the same quarter in 2004. Revenues from Innovative Steam Technologies ("IST"), which sells and licenses the technology for once through steam generators ("OTSG"), were down from $9.5 million in 2004 to $5.2 million in 2005. During the third quarter, IST was working on three OTSG boiler units compared to six OTSG units during the same quarter last year.

Other sectors within the Industrial segment, with the exception of Construction activities in Ontario, generated higher revenues than 2004. The most significant increase occurred in Western Canada where revenues of $52.1 million were $49.4 million ahead of last year, due primarily to major demolition and refurbishment work resulting from a significant fire in January 2005 at an oilsands facility in Fort McMurray, Alberta. Bolstered by two large projects, Fabrication revenues in Ontario and Eastern Canada were also higher, going from $2.9 million last year to $6.3 million in the current quarter. Revenues from Construction operations in Ontario and Eastern Canada were down $6.3 million or 24.5 % from the prior year. In the third quarter of 2004 Construction volumes were extraordinarily high as one project in particular, a $31.0 million power contract in New Brunswick, generated revenues of $10.1 million or approximately 38% of this sector's revenues. The absence of a similar type project in 2005 brought revenue levels in the third quarter of this year back to more normal levels.

For the nine months, revenues from the Industrial segment were $190.7 million compared to $145.0 million in 2004. Although IST worked on fewer boiler units in 2005 (six OTSG units in 2005 compared to nine OTSG units and two Steam Injection Gas ("STIG") turbine units in 2004), revenues of $19.6 million were slightly ahead of 2004 revenues of $19.0 million. In 2005 there was a high volume of work in both the first and last two months of the nine-month period with very little volume in between, whereas in 2004 the work was spread fairly evenly over the nine months. Revenues from Western Canada were up by $57.1 million or approximately 164%, primarily resulting from the previously mentioned demolition and refurbishment work being done at an oilsands facility in Alberta. Fabrication revenues in Ontario and Eastern Canada were favourable by $10.2 million or 91.0% for essentially the same reasons noted above for the third quarter variance. Revenues from Construction activities in Ontario and Eastern Canada were down 29.2%, going from $82.1 million in 2004 to $58.2 million this year. As noted above, revenues suffered from not having a large project in 2005 similar to the New Brunswick contract in 2004 which generated revenues of $27.2 million for the first nine months of 2004.

Operating profit of the Industrial segment was $2.5 million in the quarter which compares with a loss of $1.5 million reported in 2004. Consistent with the decrease in revenues, IST reported a loss of $0.5 million in the third quarter compared to a profit of $0.4 million in 2004. Conversely, higher reported revenues in the quarter resulted in improved earnings from the segment's Western operations where a profit of $3.1 million for the quarter compares to a loss of $1.3 million last year. Similarly, the revenue increase from Fabrication work in Ontario and Eastern Canada resulted in better results, going from a loss of $1.6 million in 2004 to a loss of $0.4 million in 2005. The only Industrial sector not to record improved results in the quarter was Construction operations in Ontario and Eastern Canada. Triggered principally by the 25.7% drop in revenues, this sector's profit declined from $1.3 million in 2004 to $0.3 million in the third quarter of 2005.

For the nine months, the Industrial segment generated earnings of $2.4 million compared to a profit of $3.6 million last year. Despite similar revenue levels in both years and despite a $0.4 million gain in the second quarter from the termination of a licensing agreement with a German company, IST incurred a loss of $0.8 million compared to a small profit in 2004. The decrease in earnings arose principally from a less profitable mix of work than in 2004 when the workload included two STIG units which have profit margins significantly higher than OTSG units. Although during the first six months of 2005 Western Operations was performing mostly lower margin site construction work as opposed to the higher margin module and fabrication assembly work performed in 2004, this negative impact on year-over-year earnings was far outweighed by the impact of significant revenue increases in third quarter profits. As a result, overall profits from Western Canada operations reached $4.0 million this year compared to $1.4 million last year. A large decline in profits came from Construction operations in Ontario and Eastern Canada where profits of $5.9 million in 2004 were replaced by profits of $0.7 million in 2005. As noted previously, volumes in 2004 were boosted by a large project in New Brunswick. Operating profit from this project in the first nine months of last year and unusually high margins earned on two other large projects contributed to the very strong performance in 2004. This work was only partially replaced in 2005 and at more normal margin levels. The large increase in revenues from Fabrication activities in Ontario and Eastern Canada, compared to last year, resulted in a better performance (a loss of $0.5 million in 2005 compared to a $3.8 million loss last year).

Backlog at September 30 of $71.3 million was $19.8 million higher than last year as large increases in the Construction and Western Canada sectors exceeded a decline in IST backlog. Construction backlog was up $22.1 million or 140.5%, principally as a result of a $17.0 million award from Bruce Power, while backlog in Western Canada increased by $17.7 million or more than threefold over 2004, primarily because of a large contract for the OPTI Nexen joint venture that was awarded in December 2004 on which work has just recently commenced. At the end of September 2005, there was backlog of $17.7 million related to this project. IST backlog fell from $25.2 million at September 30, 2004 to $6.0 million at September 30, 2005. At the end of September 2004 IST had five contracts in backlog for eight OTSGs compared to two contracts in backlog for two OTSGs at the end of September 2005. While a slow sales period has occurred for IST since November 2004, this slowdown is believed to be a result of project by project delays, rather than a fundamental shift in the market. There continues to exist a large number of new contract opportunities that provide confidence of improved backlog expectations heading into 2006.

In total, new contract awards of $70.5 million in the third quarter and $194.1 million for the first nine months of 2005, compare to $23.1 million and $111.7 million respectively for the same periods in 2004. The $47.4 million increase in backlog awards in the third quarter of 2005 came mostly from Construction, which was up by $5.1 million and Western Canada, which was up by $40.7 million. The increase of $82.4 million in backlog awards for the first nine months compared to the same period last year arose principally in the second and third quarters of 2005.

It is notable that significant commitments made to Aecon based on partnering agreements do not necessarily show up as firm backlog for external reporting purposes primarily due to the degree of uncertainty regarding the exact amount of work than can be expected. The effective backlog is therefore greater than what is reported to the extent that the expected volume of committed work is significant. During 2005 about 50% of the Industrial Division revenue came from these partnering agreements and therefore was never recorded as firm backlog.

Corporate and Other

Net corporate expenses amounted to $3.0 million in the third quarter, which compares to $1.5 million last year. Without the impact of foreign exchange, there would have been a $0.8 million increase. For the first nine months net corporate expenses amounted to $8.6 million compared to $9.8 million in

2004. After removing the effect of foreign exchange (a loss of $0.2 million in 2005 versus a gain of $0.4 million in 2004) and the impact on 2004 expenses of the one-time costs of $3.6 million referenced in the discussion above on the Company's consolidated results, corporate expenses would be higher by $1.8 million. The new key employee long-term incentive plan noted above accounted for $1.3 million of this increase, while higher defined benefit pension cost accounted for most of the balance.

Discontinued Operations

See note 9 to the Company's Interim Consolidated Financial Statements.

Quarterly Financial Data

The reader is referred to the Company's 2004 Management Discussion and Analysis for a summary of the results of the eight quarters that ended on December 31, 2004. The following table summarizes results for the first three quarters of 2005 and 2004 (in millions of dollars, except per share amounts).

	2005			2004		
	Quarter 1	Quarter 2	Quarter 3	Quarter 1	Quarter 2	Quarter 3
Revenues	$ 172.9	$ 283.0	$ 340.8	$ 189.0	$ 264.7	$ 290.0
Net income (loss)	(8.4)	1.7	2.1	(2.4)	2.4	(0.9)
Earnings (loss) per share:						
Basic	(0.29)	0.06	0.07	(0.10)	0.08	(0.03)
Diluted	(0.29)	0.05	0.07	(0.10)	0.08	(0.03)

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Cash, cash equivalents and restricted cash at September 30, 2005 totaled $36.9 million, which compares with $50.1 million at the end of 2004. Of these amounts, $14.3 million and $19.1 million, respectively, were on deposit in joint venture and affiliate bank accounts, which Aecon cannot access directly. Restricted cash of $7.5 million at September 30, 2005 represents cash which was deposited as collateral for letters of credit issued by Aecon. As such, this cash was not available for general operating purposes. Marketable securities and term deposits of $13.8 million (December 31, 2004 - $15.6 million) were held within joint ventures and these securities cannot be accessed directly by Aecon.

Cash provided from operating activities amounted to $8.4 million in the quarter ended September 30, 2005, compared to cash used in the same quarter last year of $2.0 million (excluding discontinued operations). Changes in other balances related to operations, which represents funds used or provided on account of changes in working capital balances, provided funds of $2.3 million in the quarter versus a use of $1.8 million in 2004.

For the nine months, cash used in operating activities amounted to $36.0 million, which was $24.9 million (excluding discontinued operations) higher than 2004. Referring to note 6 to the Interim Consolidated Financial Statements it can be seen that net changes in other balances related to operations were responsible for most of the higher use of cash compared to last year. It can further be seen that increased investments in holdbacks receivable and deferred contract costs and unbilled revenue, along with a decrease in deferred revenue caused the highest use of cash, while an increase in accounts payable represented the highest source of cash. The year-over-year increased investment in holdbacks receivable occurred mostly in the Buildings segment and resulted from a higher level of large lump sum jobs. The Industrial segment was responsible for most of the $13.4 million year-over-year increase in deferred contract costs and unbilled revenues. This segment reported an increase of $12.1 million in the first nine months of 2005 compared to a decrease of $0.2 million in 2004. Whereas a large investment in working capital was required in 2005 for the demolition and refurbishment work at an oilsands facility in Alberta, the segment was successful last year in generating advance billings on one of its major projects. Deferred revenues, which represent advance billings for work not yet performed, declined during the first nine months by $16.3 million compared to a decrease of $6.7 million in 2004. The $9.6 million unfavourable swing arose principally within the IST division of the Industrial segment where deferred revenues decreased by $7.1 million in the first nine months of 2005 compared to an increase of $4.9 million last year. The sharp decline in IST deferred revenues is due to a lack of new bookings. Most of year-over-year increase of $10.6 million in accounts payable and accrued liabilities was attributable to the Buildings sector and, similar to the increase in holdbacks receivable noted above, resulted from a higher level of large lump sum jobs during this period.

Investing activities resulted in a use of cash of $2.5 million in the three months ended September 30, 2005, which compares with a $2.1 million use of funds in 2004. The $4.9 million increase in other assets, which accounted for the largest use of cash, relates mostly to development costs incurred during the quarter on the Quito airport project. For the nine months, cash used in investing activities amounted to $18.1 million, which compares with cash used of $15.2 million in 2004. In addition $7.5 million was deposited to collateralize outstanding letters of credit, such collateralization being required once Aecon suspended its multi-bank operating facility in May 2005**.** The other most significant item in this period was the $4.4 million outlay to increase Aecon's investment in Derech Eretz Highways (1997) Ltd., the concessionaire of the Cross Israel Highway, from 22.2% to 25%. This investment, which totals $41.3 million at September 30, 2005, is shown on the consolidated balance sheet as a Long-Term Investment. As was the case for the quarter, the $7.3 million increase in other assets relates primarily to bid costs on the Quito airport project.

Cash generated from financing activities during the quarter amounted to $1.7 million, compared to $5.6 million in the same quarter of 2004. Of note in the quarter was the increase of $3.1 million in the loan from Hochtief AG, the parent of the Company's largest shareholder, to support a portion of Aecon's working capital contribution requirements to the Eastmain Joint-Venture, a hydroelectric power house project in Northern Quebec which is being completed by a 50/50 joint venture between Aecon and Hochtief. This loan is described in detail in note 14(d) to the Interim Consolidated Financial Statements.

For the nine months, cash provided from financing activities amounted to $33.5 million, compared to $24.4 million in 2004. Issuances of long-term debt amounted to $45.9 million and repayments totaled $48.7 million. Gross long-term debt issuances and repayments were affected by a series of draw-downs and repayments under the Company's revolving term facility. Also in the first nine months, a $31.0 million convertible debenture financing was completed, full details of which can be found in note 11 to the first quarter 2005 Interim Consolidated Financial Statements.

At September 30, 2005 long-term debt and convertible debentures, including the current portion, totaled $117.3 million, compared to $80.5 million at the end of 2004 and $64.3 million at September 30, 2004, with this increased level of convertible debenture financing providing a more secure source of financing to eliminate the annual refinancing risk that existed with Aecon's previous multi-bank operating line of credit. Borrowings under the revolving term loan, which amounted to $21.9 million at December 31, 2004, were $23.0 million at September 30, 2005.

Bank indebtedness of $8.6 million at the end of the current quarter includes $8.2 million for Aecon's 45% share of funds borrowed within the Nathpa Jhakri hydroelectric project joint venture in India and a tender loan of 0.4 million.

Interest bearing debt amounted to $125.9 million at September 30, 2005, compared to $92.4 million at December 31, 2004 and $81.1 million at September 30, 2004, the composition of which is as follows ($ millions):

	Sept. 30, 2005	Dec. 31, 2004	Sept. 30, 2004
Bank indebtedness	$ 8.6	$ 11.9	$ 16.8
Loan from a related party	6.1	-	-
Current portion of long-term debt	6.3	4.5	15.1
Convertible debenture - current	7.6	-	-
Long-term debt	38.3	40.4	41.7
Convertible debentures	59.0	35.6	7.5
Total	$ 125.9	$ 92.4	$ 81.1

Aecon has a reducing revolving term loan to fund working capital and operating requirements (with current limit of $23.0 million).

In November 2004 and March 2005 Aecon raised $30.0 million and $32.5 million respectively from the issuance of convertible debentures. These financings provided Aecon with a significantly improved liquidity base among other benefits.

In September 2005 Aecon negotiated a $15.0 million bank line to assist with very short-term changes in working capital balances and to support Aecon's ongoing letters of credit requirements.

The convertible debenture financings, combined with the revolving term loan facility and the bank line, should be sufficient to finance the Company's ongoing operations. However, in order to reduce the strain on the Company's financial resources during the summer and fall, and to ensure that sufficient financial resources exist to fully participate in the Quito Airport project, Aecon continues to examine various alternatives to further improve its liquidity and working capital position. Also, the

Company will continue to work diligently to reduce its investments in accounts receivable and deferred contract costs and unbilled revenues. Success in this area would have a significant positive impact on Aecon's liquidity position.

To fund investments in property, plant and equipment, Aecon has access to several committed and uncommitted equipment financing and leasing facilities. Remaining availability under these lines of credit is expected to be sufficient to meet Aecon's remaining anticipated requirements for 2005.

Aecon's surety capacity remains sufficient to meet its needs. However, surety capacity and pricing has become a constraining issue broadly within the industry and Aecon is not immune to these impacts.

CHANGES IN ACCOUNTING POLICIES

AcG 15 is the Canadian equivalent of the United States' FIN 46R and modifies the principles used in determining when and by whom entities are consolidated. Existing consolidation rules are considered to be unsatisfactory as they do not properly address Special Purpose Entities or other structures where control is pre-arranged and voting control doesn't reflect the underlying economic risks and rewards. Broadly speaking, if a company is exposed to more than 50% of the economic risks of a variable interest entity, it is presumed to control the entity and must consolidate it, notwithstanding that its voting interest may be minimal. Two consolidation "models" are established under AcG 15 – a Voting Interest Model ("VOI") and a Variable Interest Model ("VIE"). The VOI model has been the standard for purposes of determining control and in order to continue to use the VOI model it must be demonstrated that equity holders as a group control the entity and that they are truly at risk. One of the tests is that there must be a minimum amount of equity, as it appears in the financial statements of the entity being assessed. If the VOI tests are not met, the VIE model would be used. Proportionate consolidation is not permitted under the VIE model. Application of this new standard is extremely complex. Aecon has assessed AcG 15 and concluded that it will not result in any change to the manner in which it consolidates its current operations.

SUPPLEMENTAL DISCLOSURES

Contractual Obligations

At December 31, 2004, the Company had commitments totalling $142.8 million for equipment and premises under operating leases requiring minimum payments and for principal repayment obligations under long-term debt. The only material change since then has been the additional obligation, effective March 17, 2005, with respect to the issuance of a $32.5 convertible debenture, full details of which are included in note 11 to the first quarter 2005 Interim Consolidated Financial Statements.

At September 30, 2005, Aecon had contractual obligations to complete construction contracts which were in progress. The revenue value of these contracts, which represents backlog, was $488.5 million.

Off-Balance Sheet Arrangements

In connection with its joint venture operations in India and Israel, Aecon has provided various financial and performance guarantees and letters of credit, which are described in note 7 to the Consolidated Financial Statements.

There was no material change in the funded status of Aecon's pension plans during the first nine months of 2005. Details relating to Aecon's defined benefit plans are set out in note 18 to the Company's 2004 Consolidated Financial Statements.

Aecon from time to time enters into forward contracts and other foreign exchange hedging products to manage its exposure to changes in exchange rates related to transactions denominated in currencies other than the Canadian dollar. At September 30, 2005, the Company had net outstanding contracts to sell US $2.8 million (December 31, 2004 – sell US $9.7 million), on which there was an unrealized exchange gain of $0.2 million (December 31, 2004 - $0.6 million). Financial instruments are discussed in note 20 to the Company's 2004 Consolidated Financial Statements.

Related Party Transactions

Aecon from time to time receives financial support from Hochtief AG and its subsidiary companies ("Hochtief"), which is Aecon's largest shareholder. At September 30, 2005, Aecon was indebted to Hochtief for $7.7 million in the form of a convertible subordinated debenture as described in note 11 to the Company's 2004 Consolidated Financial Statements and $6.1 million in the form of an unsecured short-term loan, which is repayable in December 2005. Hochtief AG has issued guarantees in support of the financial and performance related obligations of the Nathpa Jhakri hydroelectric project in India in which Aecon has a joint venture interest. Aecon paid Hochtief AG $0.2 million during the nine months of 2005 in connection with these guarantees. Aecon and Hochtief are also joint venture partners in a hydroelectric project in Quebec.

Critical Accounting Estimates

The reader is referred to the detailed discussion on Critical Accounting estimates as outlined in the notes to the Company's 2004 Consolidated Financial Statements.

Outstanding Share Data

Aecon is authorized to issue an unlimited number of common shares. The following are details of common shares outstanding and securities that are convertible into common shares.

(in thousands of dollars, except share amounts)

		Sept. 30, 2005		Nov. 8, 2005
Number of common shares outstanding		31,180,609		31,180,609
Paid-up capital of common shares outstanding (1)	$	95,985	$	95,985
Outstanding securities exchangeable or convertible into common shares:				
Number of employee stock options outstanding		525,000		525,000
Number of common shares issuable on exercise of employee stock options		525,000		525,000
Increase in paid-up capital on exercise of employee stock options	$	2,405	$	2,405
Principal amount of convertible debentures outstanding (see note 11 to the Company's 2004 Consolidated Financial Statements)	$	70,231	$	70,231
Number of common shares issuable on conversion of convertible debentures		10,423,882		10,423,882
Increase in paid-up capital on conversion of convertible debentures	$	70,231	$	70,231

(1) As described in note 2 to the Company's 2004 Consolidated Financial Statements, in accordance with the recommendations of The Canadian Institute of Chartered Accountants, share capital has been reduced by $857 thousand at December 31, 2004 and $1,083 thousand at September 30, 2005 on account of share purchase loans receivable from employees.

OUTLOOK

Aecon continues to expect a significant year-over-year improvement in operating results this year, including improvement in each of the company's three segments as compared to 2004.

Within Aecon's Infrastructure segment, the improved roadbuilding results seen in the first three quarters of 2005 are expected to continue through the final quarter. The strong volumes experienced so far this year continue to be supported by a healthy backlog and profit contributions in the fourth quarter are expected to continue at a pace ahead of last year.

Similarly, the year-over-year improvement in volumes and operating results in the utilities sector is expected to continue in the fourth quarter. Aecon's expanded strategic relationship with Expertech, continued improvement in the telecom sector generally and strong performance in the gas distribution sector are expected to contribute to a strong fourth quarter in this business.

Aecon's Quebec civil operations – which reported a substantial loss in the fourth quarter of 2004 as management reduced its profit estimate on the Eastmain hydroelectric project to zero – are expected to record improved results. While still likely to be below the break even point for the year, results from this division are expected to reflect no material developments with respect to the Eastmain project. Management continues to believe that the Aecon/Hochtief joint venture building the project will be successful in recovering from the client the value of unpriced change orders associated with the project but acknowledges that an ongoing risk remains with respect to this project.

Outside of Quebec, Aecon's heavy civil construction operations are still expected to show a small loss in the fourth quarter (and a substantial year-over-year decline for the full year) as profit contributions from the now-completed Cross Israel Highway and Nathpa Jhakri projects have not yet been replaced by new projects.

The signing in August of the financing documents for the Quito International Airport project represented an important step forward. The conditions precedent that are required before funds are flowed to the project are expected to be satisfied in the fourth quarter, with the initial flow of funds expected late in the quarter or early in 2006. Under Aecon's accounting policy for large multi-year contracts, construction profit is recognized only when progress reaches a stage of completion sufficient to reasonably determine the probable results (generally when the contract is 20% complete). This milestone is likely not to be reached on the Quito project until early in 2007.

In the Buildings segment, three consecutive profitable quarters have now been achieved following losses in each quarter last year, evidencing a strong rebound from the difficulties experienced in 2004. This improvement is expected to continue through the fourth quarter, with every region except Seattle expected to report year-over-year improvement in 2005 and at least break even operating results.

The Seattle business unit, which made the largest profit contribution within Aecon's Buildings segment last year, is expected to make a slightly smaller profit contribution this year as delays in planned casino projects are expected to result in lower volumes in 2005.

In the Greater Toronto Area - by far the largest region in the segment – operations and risk management improvements implemented in 2004 continue to have a positive impact on results. Operations in this region are expected to remain profitable in the final quarter of the year.

Operations in the Ottawa and Montreal markets, both of which were significantly impacted last year by acquisitions, are expected to maintain the substantial year-over-year improvement achieved to date. Operations in Montreal are expected to generate a strong contribution this year, while operations in Ottawa are expected to break even this year after a very difficult year in 2004.

In Aecon's Industrial segment, the year-over-year improvement reported in the third quarter is expected to continue through the fourth quarter, resulting in an improved profit contribution for the year compared to 2004.

As a result of continued strong volumes from oilsands projects in Northern Alberta, the largest profit contribution in the Industrial segment this year is expected to come from operations in Western Canada. Aecon has established a strong presence in the Alberta market and profit contributions from this region are expected to show significant year-over-year improvement. And, with industrial construction now added to its ongoing capabilities in pipe fabrication and module assembly, Aecon is very well positioned for continued growth in this market where billions of dollars are expected to be invested each year over the next decade.

Pipe fabrication operations in Ontario are also expected to show substantial year-over-year improvement in 2005. Although these operations are unlikely to report a significant profit this year, it is expected that the losses incurred in 2004 will be reversed and break even results reported at year end.

Industrial's construction business unit is expected to generate positive profit contributions again in 2005 although, as anticipated, these contributions are not likely to be as large as those recorded last year. Ontario's need for increased power generation capacity, including the recently announced refurbishment of Bruce Power's nuclear generation facilities, will likely lead to significant new opportunities for Aecon's industrial construction business.

IST is expected to reach breakeven again this year despite a sales slowdown which has lasted through much of 2005 and resulted in a substantial depletion of backlog. The expected confirmation of a long-anticipated new order will be key to IST's ability to record its second consecutive profitable year after a difficult period in 2002 and 2003.

Backlog at September 30, 2005 was $488.5 million, a $57.4 million decline since the same time last year. The largest decline occurred in the Buildings segment due largely to work-off of backlog at Pearson Airport and a food distribution warehouse project in Toronto whose combined backlog at the end of September 2004 was $101 million. This reducing backlog is also the result of a strategic focus on construction management projects (and a resulting reduced focus on lump sum contracts) implemented as part of the Buildings division's plan to improve profitability in the segment. The depletion of Aecon's backlog is expected to be reversed when the anticipated financial close of the Quito Airport project will add approximately $250 million to backlog.

Not included in backlog, but important to Aecon's prospects, are the expected revenues from Aecon's growing alliances and supplier-of-choice arrangements, largely in the industrial and utilities sectors. The effective backlog is therefore greater than what is reported.

Overall, the strategic, operational and management changes made over the past two years are clearly taking hold and delivering improved results. Aecon's core markets of civil, utility, industrial and buildings construction in Canada are all demonstrating improved conditions, and expectations are that these markets will continue to strengthen. Performance in these businesses is improving substantially this year, with a dramatic turnaround and return to profitability in the Buildings division and strong year-over-year improvement expected in both the Industrial and Civil & Utilities divisions. This trend is expected to continue through the balance of the year and into 2006, with improved operating results in our core businesses driving substantial improvement in Aecon's bottom line results for 2005. There remains a risk, however, that the gains made throughout 2005 will not be sufficient to provide positive net income this year, and that a net loss may have to be reported at year end.

FORWARD-LOOKING INFORMATION

In various places in Management's Discussion and Analysis and in other sections of this document, management's expectations regarding future performance of Aecon was discussed. These "forward-looking" statements are based on currently available competitive, financial and economic data and operating plans, but are subject to risks and uncertainties. Forward-looking statements include information concerning possible or assumed future results of operations or financial position of Aecon, as well as statements preceded by, followed by, or that include the words "believes", "expects", "anticipates", "estimates", "projects", "intends", "should" or similar expressions. Important factors, in addition to those discussed in this document, could affect the future results of Aecon and could cause those results to differ materially from those expressed in any forward-looking statements.

Aecon Group Inc.

Consolidated Financial Statements

September 30, 2005 and 2004

Notice To Reader

The management of Aecon Group Inc. is responsible for the preparation of the accompanying interim consolidated financial statements. The interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and are considered by management to present fairly the financial position, operating results and cash flows of the Company.

These interim financial statements have not been reviewed by an auditor. These interim consolidated financial statements are unaudited and include all adjustments, consisting of normal and recurring items, that management considers necessary for a fair presentation of the consolidated financial position, results of operations and cash flows.

(signed) John M. Beck, Chief Executive Officer

(signed) Scott C. Balfour, Chief Financial Officer

Aecon Group Inc.

Consolidated Balance Sheets

(in thousands of dollars) (unaudited)

	September 30, 2005	December 31, 2004
Assets		
Current assets		
Cash and cash equivalents	$ **29,387**	$ 50,139
Restricted cash (note 3)	**7,500**	-
Marketable securities and term deposits	**13,758**	15,583
Accounts receivable	**157,746**	140,878
Holdbacks receivable	**56,582**	43,255
Deferred contract costs and unbilled revenue	**83,775**	55,242
Inventories	**8,504**	8,754
Prepaid expenses	**1,069**	1,545
	358,321	315,396
Property, plant and equipment	**57,333**	58,983
Future income tax assets	**11,092**	12,095
Long-term investment (note 13)	**41,273**	36,925
Other assets	**41,124**	31,928
	$ **509,143**	$ 455,327

(in thousands of dollars) (unaudited)

	September 30, 2005	December 31, 2004
Liabilities		
Current liabilities		
Bank indebtedness (note 3)	$ **8,557**	$ 11,905
Accounts payable and accrued liabilities	**184,011**	151,263
Holdbacks payable	**33,562**	29,719
Deferred revenue	**30,147**	45,891
Income taxes payable	**4,883**	4,752
Future income tax liabilities	**13,465**	13,790
Loan from a related party (note 14 (d))	**6,125**	-
Current portion of long-term debt	**6,302**	4,477
Convertible debenture (note 12 and note 14 (c))	**7,649**	-
	294,701	261,797
Long-term debt	**38,271**	40,352
Other liabilities	**2,305**	2,441
Other income tax liabilities	**12,138**	12,138
Convertible debentures (note 12)	**58,952**	35,643
	406,367	352,371
Contingencies (note 15)		
Shareholders' Equity		
Capital stock (note 4)	**95,985**	93,829
Contributed surplus (note 4)	**308**	190
Convertible debentures (note 12)	**4,982**	2,826
Retained earnings	**1,501**	6,111
	102,776	102,956
	$ **509,143**	$ 455,327

Approved by the Board of Directors

(signed) John M. Beck, Director

(signed) Scott C. Balfour, Director

Aecon Group Inc.

Consolidated Statements of Operations

For the Three Months Ended September 30, 2005 and 2004

(in thousands of dollars, except per share amounts) (unaudited)

		2005		2004
Revenues	$	**340,793**	$	290,049
Costs and expenses		**321,489**		277,809
Marketing, general and administrative expenses		**12,223**		9,690
Depreciation and amortization		**1,954**		2,039
Loss on sale of assets and investments		**206**		62
Interest expense, net		**2,424**		1,035
		338,296		290,635
Income (loss) before income taxes and discontinued operations		**2,497**		(586)
Income tax expense (recovery) (note 5)				
Current		**407**		1,904
Future		**-**		(1,389)
		407		515
Income (loss) before discontinued operations		**2,090**		(1,101)
Income from discontinued operations (note 9)		**-**		204
Net income (loss) for the period	$	**2,090**	$	(897)
Earnings (loss) per share before discontinued operations (note 4)				
Basic	$	**0.07**	$	(0.04)
Diluted	$	**0.07**	$	(0.04)
Net earnings (loss) per share (note 4)				
Basic	$	**0.07**	$	(0.03)
Diluted	$	**0.07**	$	(0.03)
Average number of shares outstanding (note 4)				
Basic		**29,592,494**		28,579,589
Diluted		**33,262,891**		32,706,946

Aecon Group Inc.

Consolidated Statements of Operations

For the Nine Months Ended September 30, 2005 and 2004

(in thousands of dollars, except per share amounts) (unaudited)

		2005		2004
Revenues	$	**796,643**	$	743,768
Costs and expenses		**754,572**		710,163
Marketing, general and administrative expenses (note 10)		**37,069**		35,457
Depreciation and amortization		**5,688**		5,798
Gain on sale of assets and investments		**(806)**		(336)
Interest expense, net		**6,702**		2,822
		803,225		753,904
Loss before income taxes, extraordinary items and discontinued operations		**(6,582)**		(10,136)
Income tax expense (recovery) (note 5)				
Current		**1,492**		4,859
Future		**-**		(7,421)
		1,492		(2,562)
Loss before extraordinary items and discontinued operations		**(8,074)**		(7,574)
Extraordinary gain, net of income taxes (note 13)		**3,444**		-
Loss before discontinued operations		**(4,630)**		(7,574)
Income from discontinued operations (note 9)		**-**		6,696
Net loss for the period	$	**(4,630)**	$	(878)
Loss per share before extraordinary items and discontinued operations (note 4)				
Basic	$	**(0.27)**	$	(0.28)
Diluted	$	**(0.27)**	$	(0.28)
Net loss per share (note 4)				
Basic	$	**(0.16)**	$	(0.03)
Diluted	$	**(0.16)**	$	(0.03)
Average number of shares outstanding (note 4)				
Basic		**29,394,024**		27,201,980
Diluted		**33,094,157**		31,313,129

Aecon Group Inc.

Consolidated Statements of Retained Earnings

For the Three Months Ended September 30, 2005 and 2004

(in thousands of dollars) (unaudited)

	2005	2004
(Deficit) retained earnings - beginning of period	$ **(596)**	$ 47,744
Add (deduct):		
Net income (loss) for the period	**2,090**	(897)
Interest received on share purchase loans	**7**	5
Retained earnings - end of period	$ **1,501**	$ 46,852

Aecon Group Inc.

Consolidated Statements of Retained Earnings

For the Nine Months Ended September 30, 2005 and 2004

(in thousands of dollars) (unaudited)

	2005	2004
Retained earnings - beginning of period	$ **6,111**	$ 47,712
Add (deduct):		
Net loss for the period	**(4,630)**	(878)
Interest received on share purchase loans	**20**	18
Retained earnings - end of period	$ **1,501**	$ 46,852

Aecon Group Inc.

Consolidated Statements of Cash Flows

For the Three Months Ended September 30, 2005 and 2004

(in thousands of dollars) (unaudited)

	2005	2004
Cash provided by (used in)		
Operating activities		
Income (loss) before discontinued operations	$ **2,090**	$ (1,101)
Items not affecting cash -		
Depreciation and amortization	**1,954**	2,039
Loss on sale of assets and investments	**206**	62
Deferred financing charges amortization	**154**	-
Loss on foreign exchange	**1,507**	206
Notional interest representing accretion	**235**	27
Future income taxes	**-**	(1,389)
	6,146	(156)
Change in other balances relating to operations (note 6)	**2,261**	(1,796)
Discontinued operations	**-**	3,152
	8,407	1,200
Investing activities		
Restricted cash (note 3)	**3,321**	-
Purchase of property, plant and equipment	**(1,265)**	(1,329)
Proceeds on sale of property, plant, equipment, and investments	**322**	709
Acquisition (note 13)	**-**	(100)
Increase in long-term investment (note 13)	**-**	(86)
Increase in other assets	**(4,910)**	(1,266)
	(2,532)	(2,072)
Financing activities		
Increase (decrease) in bank indebtedness	**116**	(8,336)
Short-term loan from a related party (note 14 (d))	**3,125**	-
Issuance of long-term debt	**-**	24,023
Repayments of long-term debt	**(1,740)**	(10,527)
Issuance of capital stock (note 4)	**152**	439
Interest received on share purchase loans	**7**	5
	1,660	5,604
Increase in cash and cash equivalents	**7,535**	4,732
Effects of foreign exchange on cash balances	**(324)**	(2,052)
Cash and cash equivalents - beginning of period	**22,176**	32,139
Cash and cash equivalents - end of period	$ **29,387**	$ 34,819

Supplementary disclosure (note 6)

Aecon Group Inc.

Consolidated Statements of Cash Flows

For the Nine Months Ended September 30, 2005 and 2004

(in thousands of dollars) (unaudited)

	2005	2004
Cash provided by (used in)		
Operating activities		
Loss before discontinued operations	$ **(4,630)**	$ (7,574)
Items not affecting cash -		
Depreciation and amortization	**5,688**	5,798
Gain on sale of assets and investments	**(806)**	(336)
Deferred financing charges amortization	**691**	-
Extraordinary gain (note 13)	**(4,122)**	-
Loss (gain) on foreign exchange	**2,249**	(67)
Notional interest representing accretion	**614**	82
Future income taxes	**678**	(7,421)
	362	(9,518)
Change in other balances relating to operations (note 6)	**(36,339)**	(1,558)
Discontinued operations	**-**	8,512
	(35,977)	(2,564)
Investing activities		
Restricted cash (note 3)	**(7,500)**	-
Purchase of property, plant and equipment	**(2,982)**	(3,781)
Proceeds on sale of property, plant, equipment, and investments	**2,299**	2,042
Acquisition (note 13)	**(192)**	(1,175)
Proceeds on sale of joint venture (note 9)	**-**	1,188
Increase in long-term investment (note 13)	**(4,348)**	(14,637)
Increase in other assets	**(7,317)**	(3,152)
Proceeds from disposition of other assets (note 6)	**-**	4,326
Cash acquired on acquisition of a subsidiary, net of consideration paid (note 13)	**1,896**	-
Discontinued operations	**-**	12
	(18,144)	(15,177)
Financing activities		
Decrease in bank indebtedness	**(3,090)**	(13,048)
Short-term loan from a related party (note 14 (d))	**6,125**	-
Issuance of long-term debt	**45,948**	47,023
Repayments of long-term debt	**(48,646)**	(33,979)
Issuance of capital stock (note 4)	**2,156**	24,352
Interest received on share purchase loans	**20**	18
Net proceeds from issuance of convertible debenture	**31,016**	-
Discontinued operations	**-**	28
	33,529	24,394
(Decrease) increase in cash and cash equivalents	**(20,592)**	6,653
Effects of foreign exchange on cash balances	**(160)**	(1,285)
Cash and cash equivalents - beginning of period	**50,139**	29,451
Cash and cash equivalents - end of period	$ **29,387**	$ 34,819

Supplementary disclosure (note 6)

(in thousands of dollars, except per share amounts) (unaudited)

1. Summary of significant accounting policies

These unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles for interim financial statements. They do not include all of the disclosures required by Canadian generally accepted accounting principles for annual financial statements and accordingly, the interim financial information should be read in conjunction with the Company's annual financial statements. The interim financial information has been prepared using the same accounting policies as set out in note 1 to the Consolidated Financial Statements for the year ended December 31, 2004, except for those accounting policies adopted on January 1, 2005 as described in note 2 hereunder. In the opinion of management these statements include all adjustments, consisting of normal and recurring items that are necessary for a fair presentation of the consolidated financial position, results of operations and cash flows.

The construction industry in Canada is seasonal in nature due to weather conditions, with less work performed in the winter and early spring months. Accordingly, the Company experiences a seasonal pattern in its operating results with the first half of the year typically reflecting lower revenues and profits than the second half of the year. Results for the three-month and nine-month periods ended September 30, 2005 are not necessarily indicative of results expected for the full fiscal year or any other future period.

2. Changes in accounting policies

AcG 15 is the Canadian equivalent of the United States' FIN 46R and modifies the principles used in determining when and by whom entities are consolidated. Existing consolidation rules are considered to be unsatisfactory as they do not properly address Special Purpose Entities or other structures where control is pre-arranged and voting control doesn't reflect the underlying economic risks and rewards. In general, if a company is exposed to more than 50% of the economic risks of a variable interest entity, it is presumed to control the entity and must consolidate it, notwithstanding that its voting interest may be minimal. Two consolidation "models" are established under AcG 15 – a Voting Interest Model ("VOI") and a Variable Interest Model ("VIE"). The VOI model has been the standard for purposes of determining control and in order to continue to use the VOI model it must be demonstrated that equity holders as a group control the entity and that they are truly at risk. One of the tests is that there must be a minimum amount of equity, as it appears in the financial statements of the entity being assessed. If the VOI tests are not met, the VIE model would be used. Proportionate consolidation is not permitted under the VIE model. Aecon's assessment is that AcG 15 will not result in any change to the manner in which it currently consolidates its operations.

3. Restricted cash and bank indebtedness

On September 29, 2005, the Company entered into a credit agreement with The Toronto Dominion Bank for a $15,000 revolving operating line of credit of which $7,500 is to be secured by cash collateral. Interest rates on cash advances outstanding generally bear interest at Canadian or U.S. prime plus 1.5%. The facility has certain financial covenants to be calculated quarterly, and matures on September 28, 2006. Utilization at September 30, 2005, amounted to $Nil.

(in thousands of dollars, except per share amounts) (unaudited)

At September 30, 2005, the Company had $7,500 in restricted cash (December 31, 2004 – $Nil), which was deposited as collateral for the operating line of credit including letters of credit issued by the Company and was not available for general operating purposes.

4. Capital stock

	2005		2004	
	Number of shares issued	**Amount**	**Number of shares issued**	**Amount**
Balance – January 1	30,524,609	$ 93,829	25,308,542	$ 68,216
Common shares issued on exercise of options	276,000	1,014	64,667	234
Common shares issued less expenses of $803 (i)	-	-	4,600,000	23,347
Balance – March 31	30,800,609	94,843	29,973,209	91,797
Common shares issued on exercise of options	275,000	990	70,900	261
Adjustment of expenses related to common shares issued in first quarter (i)	-	-	-	77
Balance – June 30	31,075,609	95,833	30,044,109	92,135
Common shares issued on exercise of options	105,000	152	130,000	468
Adjustment of expenses related to common shares issued in first quarter (i)	-	-	-	(35)
Balance – September 30	31,180,609	$ 95,985	30,174,109	$ 92,568

(i) On March 18, 2004, the Company issued 4,600,000 common shares at $5.25 per share. Net proceeds, after deducting agents' fees and estimated expenses of the issue were approximately $23,389. Hochtief Canada Inc. ("HCI"), the Company's largest shareholder, exercised its pre-emptive right in connection with this offering and acquired 2,214,440 common shares, thus maintaining its proportionate interest.

The Company is authorized to issue an unlimited number of common shares.

On June 21, 2005, the Company's shareholders approved a new stock option plan (the 2005 Stock Option Plan) to replace the previous 1998 Stock Option Plan. The aggregate number of common shares that can be issued under the 2005 Plan shall not exceed 2,500,000. As at September 30, 2005, no options have been issued under the 2005 Plan. Similar to the 1998 Plan, each option issuance under the 2005 Plan shall specify the period for which the option thereunder is exercisable (which in no event shall exceed ten years from the date of grant) and shall provide that the option shall expire at the end of such period. The Company's Board of Directors will determine the vesting period on the dates of option grants.

(in thousands of dollars, except per share amounts) (unaudited)

The granting of options under the 1998 Stock Option Plan ceased effective June 21, 2005. However, this does not affect the rights granted under this plan to the holders of 525,000 options that were previously issued and remain outstanding under this plan. Details of common shares issued upon the exercise of options under the 1998 Plan, as well as details of changes in the balance of options outstanding are detailed below:

	2005			2004		
	Number of shares		**Weighted average exercise price**	**Number of shares**		**Weighted average exercise price**
Options outstanding - January 1	1,181,000	$	4.05	1,780,400	$	3.76
Exercised	(276,000)		3.67	(64,667)		3.62
Forfeited	-		-	(83,333)		5.40
Options outstanding - March 31	905,000		4.19	1,632,400		3.69
Exercised	(275,000)		3.60	(70,900)		3.68
Forfeited	-		-	(50,000)		3.60
Options outstanding - June 30	630,000	$	4.42	1,511,500	$	3.69
Granted	-		-	100,000		6.30
Exercised	(105,000)		3.60	(130,000)		3.60
Options outstanding - September 30	525,000	$	4.58	1,481,500	$	3.87
Options exercisable at end of period	375,000	$	4.12	1,314,833	$	3.64

Options were exercised during the three months ended September 30, 2005 for 105,000 shares (2004 - 130,000) for which share capital was increased by $152 (2004 - $468). For the nine months ended September 30, 2005, 656,000 options were exercised (2004 - 265,567) for which share capital was increased by $2,156 (2004 - $963). Options currently outstanding have the following exercise prices and expiry dates:

Options granted in	Number of shares	Exercise price	Expiry date
2001	200,000	$3.60	March 5, 2006
2001	75,000	3.60	April 9, 2006
2003	100,000	4.75	April 1, 2008
2004	100,000	6.30	August 3, 2009
2004	50,000	6.20	November 30, 2009

The options granted have a term of five years from the date of grant and vest on the anniversary date of the grant at the rate of one-third per annum of the total number of share options granted.

(in thousands of dollars, except per share amounts) (unaudited)

The Company adopted fair value accounting for options granted to employees after 2001. During the three months ended September 30, 2005, compensation expense of $39 (2004 - $47) was recorded with respect to the expensing of stock options and contributed surplus was increased by the same amount. During the nine months ended September 30, 2005, compensation expense of $118 (2004 - $79) was recognized and contributed surplus was increased by the same amount, on account of options outstanding. During the nine months ended September 30, 2004, 75,000 options that were granted in 2002 were cancelled, which resulted in a reduction in compensation expense of $124 and a decrease in contributed surplus of the same amount.

Details of the calculations of income and loss per share are set out below. For purposes of calculating basic income or loss per share the number of common shares has been reduced by 1,584,963 common shares on account of share purchase loans receivable from employees. For purposes of calculating diluted income or loss per share, these shares have been treated as options.

Three months ended September 30

					2005
		Income (numerator)	**Shares (denominator)**		**Per share**
Net income per share					
Net income for the period	$	2,090	29,592,494	$	0.07
Effect of dilutive securities					
Options		-	1,522,831		-
Convertible secured subordinated debenture bearing interest at prime rate plus 1.0% maturing on June 30, 2006		83	2,147,566		-
	$	2,173	33,262,891	$	0.07

					2004
		(Loss) income (numerator)	**Shares (denominator)**		**Per share**
Net loss per share					
Net loss for the period	$	(897)	28,579,589	$	(0.03)
Effect of dilutive securities (i)					
Options		-	1,979,791		-
Convertible secured subordinated debenture bearing interest at prime rate plus 1.0% maturing on June 30, 2006		77	2,147,566		-
	$	(820)	32,706,946	$	(0.03)

(in thousands of dollars, except per share amounts) (unaudited)

					2004
		(Loss) income (numerator)	**Shares (denominator)**		**Per share**
Loss per share before discontinued operations					
Loss before discontinued operations	$	(1,101)	28,579,589	$	(0.04)
Effect of dilutive securities (i)					
Options		-	1,979,791		-
Convertible secured subordinated debenture bearing interest at prime rate plus 1.0% maturing on June 30, 2006		77	2,147,566		-
	$	(1,024)	32,706,946	$	(0.04)

Nine months ended September 30

					2005
		(Loss) income (numerator)	**Shares (denominator)**		**Per share**
Net loss per share					
Net loss for the period	$	(4,630)	29,394,024	$	(0.16)
Effect of dilutive securities (i)					
Options		-	1,552,567		-
Convertible secured subordinated debenture bearing interest at prime rate plus 1.0% maturing on June 30, 2006		247	2,147,566		-
	$	(4,383)	33,094,157	$	(0.16)

		(Loss) income (numerator)	**Shares (denominator)**		**Per share**
Loss per share before extraordinary items and discontinued operations					
Loss before extraordinary items and discontinued operations	$	(8,074)	29,394,024	$	(0.27)
Effect of dilutive securities (i)					
Options		-	1,552,567		-
Convertible secured subordinated debenture bearing interest at prime rate plus 1.0% maturing on June 30, 2006		247	2,147,566		-
	$	(7,827)	33,094,157	$	(0.27)

(in thousands of dollars, except per share amounts) (unaudited)

			2004		
		(Loss) income (numerator)	**Shares (denominator)**		**Per share**
Net loss per share					
Net loss for the period	$	(878)	27,201,980	$	(0.03)
Effect of dilutive securities (i)					
Options		-	1,963,583		-
Convertible secured subordinated debenture bearing interest at prime rate plus 1.0% maturing on June 30, 2006		234	2,147,566		
	$	(644)	31,313,129	$	(0.03)

		(Loss) income (numerator)	**Shares (denominator)**		**Per share**
Loss per share before extraordinary items and discontinued operations					
Loss before extraordinary items and discontinued operations	$	(7,574)	27,201,980	$	(0.28)
Effect of dilutive securities (i)					
Options		-	1,963,583		-
Convertible secured subordinated debenture bearing interest at prime rate plus 1.0% maturing on June 30, 2006		234	2,147,566		-
	$	(7,340)	31,313,129	$	(0.28)

(i) As the impact of dilutive securities would be to decrease the loss per share, they are excluded for purposes of the calculation of diluted loss per share.

In the three months ended September 30, 2005, basic earnings per share from extraordinary items amounted to $Nil (2004 - $Nil), and diluted earnings per share from extraordinary gain amounted to $Nil (2004 - $Nil). In the nine months ended September 30, 2005, basic earnings per share from extraordinary items amounted to $0.12 (2004 - $Nil), and diluted earnings per share from extraordinary gain amounted to $0.12 (2004 - $Nil).

In the three months ended September 30, 2005, basic earnings per share from discontinued operations amounted to $Nil (2004 - $0.01 per share), and diluted earnings per share from discontinued operations amounted to $Nil (2004 - $0.01). In the nine months ended September 30, 2005, basic earnings per share from discontinued operations amounted to $Nil (2004 - $0.25 per share), and diluted earnings per share from discontinued operations amounted to $Nil (2004 - $0.25).

(in thousands of dollars, except per share amounts) (unaudited)

5. Income taxes

In the fourth quarter of 2004, the Company provided a valuation allowance against the net future tax assets that had been recorded at December 31, 2003 and against future tax assets that would otherwise have been recorded in 2004 with respect to its Canadian controlled operations. Consistent with this accounting treatment, future tax assets in respect of any further tax losses incurred in 2005 from Canadian controlled operations will be offset by a valuation allowance whereas a provision for tax on income from Canadian controlled operations will be offset by a reduction in previously recorded valuation allowances.

Set out below, in tabular form, is a reconciliation between the expected tax recoveries in 2005 and 2004 at statutory rates and the reported tax expense in 2005 and tax recovery in 2004.

	Nine months ended September 30 2005	2004
Loss before income taxes, extraordinary items and discontinued operations	$ 6,582	$ 10,136
Statutory income tax rate	36.1%	36.1%
Expected income tax recovery	(2,377)	(3,661)
Effect on income taxes of:		
Valuation allowance against current year's future tax assets	1,623	-
Provincial and foreign rate differentials	47	568
Non-deductible expenses	325	318
Large corporations tax	338	338
Foreign exchange translation losses	650	197
Other foreign exchange losses (gains)	929	(298)
Other	(43)	(24)
	3,869	1,099
Income tax expense (recovery)	$ 1,492	$ (2,562)

(in thousands of dollars, except per share amounts) (unaudited)

6. Cash flow information

Change in other balances relating to operations:

	Three months to September 30		Nine months to September 30	
	2005	**2004**	**2005**	**2004**
(Increase) decrease in:				
Marketable securities	$ **38**	$ 940	$ **1,165**	$ 8,056
Accounts receivable	**(1,376)**	(1,691)	**(15,726)**	(16,302)
Holdbacks receivable	**(15,211)**	(619)	**(13,338)**	(643)
Deferred contract costs and unbilled revenue	**(13,498)**	(13,969)	**(26,945)**	(13,501)
Inventories	**(317)**	2,886	**250**	792
Prepaid expenses	**1,154**	292	**182**	(1,169)
Increase (decrease) in:				
Accounts payable and accrued liabilities	**19,251**	13,752	**30,005**	19,413
Holdbacks payable	**9,323**	3,210	**3,707**	7,077
Deferred revenue	**1,101**	(7,648)	**(16,309)**	(6,712)
Income taxes payable	**1,796**	1,051	**670**	1,431
	$ **2,261**	$ (1,796)	$ **(36,339)**	$ (1,558)

Other supplementary information:

	Three months to September 30		Nine months to September 30	
	2005	**2004**	**2005**	**2004**
Cash interest paid	$ **2,326**	$ 1,402	$ **5,021**	$ 3,791
Cash income taxes paid	$ **240**	$ 1,200	$ **2,308**	$ 2,982

Property, plant and equipment acquired and financed by means of capital leases during the three months ended September 30, 2005 amounted to $134 (2004 - $Nil) and $2,442 (2004 - $638) for the nine months ended September 30, 2005.

During the nine months ended September 30, 2004, the Company received $4,326 upon the transfer to a new partner of a portion of its interest in the Quito, Ecuador airport project.

7. Guarantees

The Company has outstanding guarantees and letters of credit amounting to $25,770 (December 31, 2004 - $29,644) in support of financial and performance related obligations for the Nathpa Jhakri hydroelectric project in India, which has also been guaranteed by Hochtief AG ("Hochtief"), the parent of the Company's principal shareholder. The Company and Hochtief have signed an indemnity agreement whereby the Company has agreed to pay Hochtief any amounts Hochtief is required to pay pursuant to this guarantee.

(in thousands of dollars, except per share amounts) (unaudited)

In connection with the Cross Israel Highway project, the Company has provided two joint and several guarantees, a continuous guarantee, which guarantees the performance of the concessionaire in which the Company has a 25% interest (December 31, 2004 - 22.20%), and a leakage guarantee, which is a guarantee by the operator of the toll highway, in which the Company has a 31% interest (December 31, 2004 - 34%), to the concessionaire and covers toll capture and collection rates generated from users of the highway during the operating period. These guarantees extend to the end of the concession period which ends in 2029. The continuous guarantee is in the amount of $9,418 (December 31, 2004 - $16,227) and is renewed annually to its full amount, irrespective of any draw downs made thereunder. The leakage guarantee came into effect when construction was completed and is renewable annually for the lesser of $11,361 (December 2004 - $12,276) or 6% of annual toll revenue.

The Company has also issued performance guarantees of $5,032 (December 31, 2004 - $5,572) and advance payment guarantees of $3,506 (December 31, 2004 - $Nil) in respect of certain other international projects supported by guarantees issued to Aecon by Export Development Corporation.

In addition, the Company has also issued, in the normal conduct of operations, guarantees amounting to $10,284 (December 31, 2004 - $7,186) in support of financial and performance related obligations. These guarantees are secured by cash held in interest bearing accounts. Furthermore, the Company has issued an advance payment guarantee in the amount of $3,000 (December 31, 2004 - $3,000) for the Eastmain power house project joint venture. This guarantee is counter-guaranteed by its partner Hochtief in return for which Aecon has provided the joint venture with access to $3,000 of the Company's equipment leasing facilities.

Under the terms of many of the Company's joint venture contracts with project owners, each of the partners is joint and severally liable for performance under the contracts. Circumstances that could lead to a loss include a partner's inability to contribute additional funds to the venture in the event that the project incurs a loss or additional costs that the Company could incur should the partner fail to provide the contractually committed services and resources. At September 30, 2005, the value of uncompleted work for which Aecon's joint venture partners are responsible, and which Aecon could be responsible for assuming, amounted to approximately $60,000 (December 31, 2004 - $115,000), a substantial portion of which is supported by performance bonds. In the event that Aecon assumed this additional work it would have the right to receive the partner's share of billings to the project owners pursuant to the joint venture contract.

The Company has, over time, sold portions of its business. Pursuant to the sale agreements, the Company may have to indemnify the purchaser against liabilities related to events prior to the sale, such as tax, environmental, litigation and employment matters or related to representations made by the Company. The Company is unable to estimate the potential liability for these types of indemnification guarantees as the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. However the maximum guarantee is not to exceed the proceeds from disposal. Historically, the Company has not made any significant indemnification payments under such agreements.

(in thousands of dollars, except per share amounts) (unaudited)

8. Segmented information and business concentration

The Company has three reportable segments: Infrastructure, Buildings and Industrial. This segmentation reflects the Company's current structure and management. The Corporate and Other category in the summary below includes corporate costs and other activities not directly allocable to segments and also includes inter-segment eliminations.

Infrastructure

This segment includes all aspects of the construction of infrastructure including roads and highways, expressways and toll routes, dams and tunnels, bridges, airports, marine facilities, transit systems and power projects as well as utility distribution systems including natural gas, telecommunications and electrical networks, water and sewer mains, traffic signals and highway lighting. Activities within this segment also include the development, design, construction, operation and financing of infrastructure projects by way of build-operate-transfer, build-own-operate-transfer or public-private partnership contract structures.

Buildings

This segment is active in the construction of commercial and institutional buildings principally in Canada and the north-western United States and selected international projects.

Industrial

This segment includes all of the Company's industrial manufacturing and industrial construction activities. These operations include the fabrication of small and large bore pipe and module assembly for the petrochemical industry, and the design and manufacture of once through heat recovery steam generators for industrial and power plant applications. Also included are the Company's industrial construction, installation and maintenance activities where the Company has special expertise in the power, automotive and steel industries.

(in thousands of dollars, except per share amounts) (unaudited)

Information by reportable segments is as follows:

As at September 30 and the three months then ended

										2005
		Infrastructure		**Buildings**		**Industrial**		**Corporate and Other**		**Total**
Revenues	$	144,490	$	114,454	$	82,990	$	(1,141)	$	340,793
EBITDA (i)	$	5,146	$	1,594	$	2,926	$	(2,791)	$	6,875
Depreciation and amortization		1,168		110		454		222		1,954
Segment operating profit (loss)	$	3,978	$	1,484	$	2,472	$	(3,013)	$	4,921
Interest and income taxes										(2,831)
Net income									$	2,090
Total assets	$	253,270	$	117,790	$	90,138	$	47,945	$	509,143
Intangible assets and goodwill	$	2,643	$	1,893	$	3,750	$	-	$	8,286
Capital expenditures	$	566	$	59	$	156	$	484	$	1,265
Cash flow from (used in) continuing operations	$	6,640	$	1,594	$	2,872	$	(4,960)	$	6,146

(in thousands of dollars, except per share amounts) (unaudited)

					2004
	Infrastructure	**Buildings**	**Industrial**	**Corporate and Other**	**Total**
Revenues	$ 152,827	$ 97,229	$ 40,664	$ (671)	$ 290,049
EBITDA (i)	$ 7,099	$ (2,215)	$ (1,078)	$ (1,318)	$ 2,488
Depreciation and amortization	1,309	124	430	176	2,039
Segment operating profit (loss)	$ 5,790	$ (2,339)	$ (1,508)	$ (1,494)	$ 449
Interest and income taxes					(1,550)
Loss from continuing operations					$ (1,101)
Segment operating profit from discontinued operations	$ 167	$ -	$ 199	$ -	$ 366
Interest and income taxes					(162)
Income from discontinued operations					$ 204
Net loss					$ (897)
Total assets	$ 259,923	$ 97,967	$ 53,103	$ 80,240	$ 491,233
Assets of discontinued operations	$ 1,506	$ -	$ 6,608	$ -	$ 8,114
Intangible assets and goodwill	$ 2,778	$ 3,996	$ 3,750	$ -	$ 10,524
Capital expenditures	$ 151	$ 82	$ 215	$ 881	$ 1,329
Cash flow from (used in) continuing operations	$ 7,776	$ (2,216)	$ (1,076)	$ (4,640)	$ (156)

(in thousands of dollars, except per share amounts) (unaudited)

As at September 30 and the nine months then ended

					2005
	Infrastructure	**Buildings**	**Industrial**	**Corporate and Other**	**Total**
Revenues	$ 309,483	$ 299,796	$ 190,704	$ (3,340)	$ 796,643
EBITDA (i)	$ 7,416	$ 2,453	$ 3,836	$ (7,897)	$ 5,808
Depreciation and amortization	3,323	323	1,387	655	5,688
Segment operating profit (loss)	$ 4,093	$ 2,130	$ 2,449	$ (8,552)	$ 120
Interest and income taxes					(8,194)
Loss before extraordinary item					$ (8,074)
Extraordinary gain	$ 4,122	$ -	$ -	$ -	$ 4,122
Income taxes					(678)
Extraordinary gain, net of income taxes					$ 3,444
Net loss					$ (4,630)
Capital expenditures	$ 1,323	$ 173	$ 716	$ 770	$ 2,982
Cash flow from (used in) continuing operations	$ 8,027	$ 2,453	$ 3,834	$ (13,952)	$ 362

(in thousands of dollars, except per share amounts) (unaudited)

					2004
	Infrastructure	**Buildings**	**Industrial**	**Corporate and Other**	**Total**
Revenues	$ 321,101	$ 279,499	$ 145,006	$ (1,838)	$ 743,768
EBITDA (i)	$ 8,453	$ (5,616)	$ 4,896	$ (9,249)	$ (1,516)
Depreciation and amortization	3,484	519	1,280	515	5,798
Segment operating (loss) profit	$ 4,969	$ (6,135)	$ 3,616	$ (9,764)	$ (7,314)
Interest and income taxes					(260)
Loss from continuing operations					$ (7,574)
Segment operating profit from discontinued operations	$ 462	$ -	$ 9,739	$ -	$ 10,201
Interest and income taxes					(3,505)
Income from discontinued operations					$ 6,696
Net loss					$ (878)
Capital expenditures	$ 630	$ 277	$ 1,748	$ 1,126	$ 3,781
Cash flow from (used in) continuing operations	$ 8,610	$ (5,606)	$ 4,767	$ (17,289)	$ (9,518)

i. EBITDA represents earnings or loss before interest, income taxes, depreciation and amortization. Segment operating profit (loss) represents net income (loss) before interest and income taxes. Cash flow from (used in) operations is before the change in other balances related to operations. EBITDA, operating profit (loss), and cash flow from operations are not measures that have any standardized meaning prescribed by GAAP and are considered non-GAAP measures. Therefore, these measures may not be comparable to similar measures presented by other companies. These measures have been described and presented in order to provide shareholders and potential investors with additional information regarding the Company's finances and results of operations.

(in thousands of dollars, except per share amounts) (unaudited)

9. Discontinued operations

In the fourth quarter of 2004, the Company sold its 38.75% interest in Canatom NPM Inc. that was part of the Company's Industrial segment. For the three months ended September 30, 2004, the Company's proportionate share of revenues, expenses and net income from this joint venture were as follows: revenues of $1,613; expenses other than income taxes of $1,392; net income of $212. For the nine months ended September 30, 2004, the Company's proportionate share of revenues, expenses and net income from this joint venture were as follows: revenues of $14,431; expenses other than income taxes of $4,617; net income of $6,473.

In the fourth quarter of 2004, the Company sold its Footage Tools division that was part of the Company's Infrastructure segment. For the three months ended September 30, 2004, the Company's revenues, expenses and net loss from this division were as follows: revenues of $887; expenses other than income taxes of $720; net loss of $8. For the nine months ended September 30, 2004, the Company's revenues, expenses and net income from this division were as follows: revenues of $2,866; expenses other than income taxes of $2,380; net income of $311.

In the second quarter of 2004, the Company sold its one-third interest in a joint venture that was part of the Company's Infrastructure segment. Net proceeds from the sale were $1,188 and the after-tax gain from the sale amounted to $259. For the three months ended September 30, 2004, the Company's proportionate share of revenues, expenses and net loss from this joint venture were as follows: revenues of $Nil; expenses other than income taxes of $Nil; net loss of $Nil. For the six months ended September 30, 2004, the Company's proportionate share of revenues, expenses and net loss from this joint venture were as follows: revenues of $52; expenses other than income taxes of $468; net loss of $347.

In the first quarter of 2004, the Company sold its interest in Europort Poland Sp. z o.o., SC Infrastructure (Poland) Sp. z o.o, and related affiliated companies. Proceeds from disposition were nominal.

Included as discontinued operations in the Consolidated Statements of Operations and Consolidated Statements of Cash Flows are the results of operations and cash flows related to these operations.

The table below summarizes income from discontinued operations:

	Three months to September 30, 2004	Nine months to September 30, 2004
Revenues	$ 2,500	$ 17,349
Expenses	(2,112)	(7,079)
Income before income taxes	388	10,270
Income taxes	184	3,574
Income	$ 204	$ 6,696

Certain comparative figures have been reclassified, consistent with the presentation of discontinued operations.

(in thousands of dollars, except per share amounts) (unaudited)

10. Lease termination cost

During the first quarter of 2004, the Company reached agreement with its landlord to terminate, effective July 5, 2004, the lease on the Company's premises at 3660 Midland Avenue in Toronto. By exercising its right to terminate the lease before the lease termination date, the Company was required to pay the sum of $2,594 to the landlord of the premises, which payment, in accordance with Canadian generally accepted accounting principles, has been charged to operations in the nine months ended September 30, 2004 and included in Corporate and Other. The lease was terminated to facilitate the consolidation of the Company's Midland Avenue, Victoria Park (Toronto) and Indell Lane (Brampton) offices into one jointly used leased facility located near Toronto's Pearson Airport. Other costs associated with the consolidation of the premises for the total of $1,030 were expensed in the three months ended September 30, 2004, and $1,180 was expensed in the nine months ended September 30, 2004.

11. Employee future benefit expenses

Employee future benefit expenses for the three and nine months ended September 30, 2005 are as follows:

	Three months ended September 30		Nine months ended September 30	
	2005	**2004**	**2005**	**2004**
Defined benefit plan expense:				
Company sponsored pension plans	$ **423**	$ 378	$ **1,309**	$ 1,135
Defined contribution plan expense:				
Company sponsored pension plans	**332**	477	**1,172**	1,244
Multi-employer pension plans	**7,300**	4,633	**16,999**	11,115
Total employee future benefit expenses	$ **8,055**	$ 5,488	$ **19,480**	$ 13,494

12. Convertible debentures

In the first quarter of 2005, the Company entered into an agreement with a syndicate of underwriters pursuant to which the underwriters purchased $32,500 in unsecured, subordinated convertible debentures on an underwritten private placement basis.

The convertible debentures will mature on March 17, 2010 and will accrue interest at the rate of 8.25% per annum payable on a semi-annual basis. At the holder's option, the convertible debentures may be converted into common shares at any time up to the maturity date at a conversion price of $7.60 for each common share, subject to adjustment in certain circumstances.

(in thousands of dollars, except per share amounts) (unaudited)

The convertible debentures will not be redeemable before March 18, 2008. From March 18, 2008 through the maturity date the Company may, at its option, redeem the convertible debentures, in whole or in part, at par plus accrued and unpaid interest provided that the weighted average closing price of the common shares on the Toronto Stock Exchange during a specified period prior to redemption is not less than 125% of the conversion price.

Subject to specified conditions, the Company will have the right to repay the outstanding principal amount of the convertible debentures, on maturity or redemption, through the issuance of common shares of the Company. The Company also has the option to satisfy its obligation to pay interest through the issuance and sale of additional common shares of the Company on a private placement basis. Additionally, the Company will have the option, subject to prior agreement of the holders, to settle its obligations on conversion by way of a cash payment of equal value.

In determining the amount of the debt and equity components of the convertible debenture, the carrying amount of the financial liability is first determined by discounting the stream of future payments of interest and principal at the rate of interest prevailing at the date of issue for instruments of similar term and risk. The equity component equals the amount determined by deducting from the carrying amount of the compound instrument the amount of the debt component.

Convertible subordinated debentures:

		2005
Debt component:		
Balance – beginning of period	$	35,643
Notional interest representing accretion		614
Debenture issued during the first quarter		30,344
Balance – end of period	$	66,601
Reported as:		
Current liability	$	7,649
Long-term liability		58,952
	$	66,601
Equity component:		
Balance – beginning of period	$	2,826
Debenture issued during the first quarter		2,156
Balance – end of period	$	4,982

13. Acquisition

On January 24, 2005, the Company acquired its partner’s share in the joint venture that holds 33.33% in the construction joint venture, of which one of its projects was the Cross Israel Highway.

(in thousands of dollars, except per share amounts) (unaudited)

The following is a summary of the acquisition:

Net assets acquired		
Cash	$	3,416
Working capital		533
Long-term receivable		1,693
	$	5,642
Consideration		
Cash	$	1,520
Extraordinary gain before income taxes	$	4,122
Income taxes		678
Extraordinary gain after income taxes	$	3,444

As the fair value of the financial and current net assets acquired exceeded the amount paid, the Company recorded an extraordinary gain of $4,122 before income taxes, and $3,444 net of income taxes on this transaction. Also, since the cash acquired of $3,416 exceeded the consideration paid of $1,520, the Company's overall cash position improved by $1,896.

In addition, the Company increased its investment in Derech Eretz Highways (1997) Ltd. ("Derech Eretz"), the company owning the concession rights for the Cross Israel Highway, from 22.2% to 25%. The purchase price for the increased stake was $4,348 (US$3,500). Pursuant to certain agreements with the State of Israel and the project lenders, Aecon's interest in Derech Eretz would be diluted to approximately 11% if certain options granted to these parties are exercised.

In the second quarter of 2004, the Company acquired the assets and operations of Cegerco CCI Inc., a general contracting company in the Montreal region, specializing in the construction and management of institutional, commercial and pharmaceutical building projects. The purchase price on closing was $784, of which, $400 was in cash and $384 was in the form of a short-term note payable. The acquisition was accounted for using the purchase method and the results of operations are included from the date of acquisition.

The following is a summary of the acquisition:

Net assets acquired		
Non-cash working capital	$	19
Property, plant and equipment		265
Intangible assets		500
	$	784
Consideration		
Cash	$	400
Short-term note payable		384
	$	784

In the second quarter of 2005, the Company paid $192 with respect to the short-term note payable of $384 recorded in connection with the acquisition of Cegerco CCI Inc.

(in thousands of dollars, except per share amounts) (unaudited)

At December 31, 2003, the Company recorded amounts payable of $1,503 to the vendors of Westeinde Construction Ltd. in connection with the acquisition of that company. In the nine months ended September 30, 2004, the Company paid $775 with respect to this liability.

14. Related party transactions and balances

In addition to related party transactions described elsewhere in the notes to these consolidated financial statements, the following summarizes additional transactions during the period. Related party transactions are recorded at their exchange amounts.

(a) Hochtief, the parent of HCI, has issued guarantees in support of the financial and performance related obligations of the Nathpa Jhakri hydroelectric project in India in which the Company has a joint venture interest (note 7). The Company paid Hochtief $201 during the nine months ended September 30, 2005 (2004 - $272) in connection with these guarantees.

(b) The Company is in a joint venture with Hochtief on the Eastmain hydroelectric power house project in Quebec.

(c) At September 30, 2005, the Company was indebted to HCI for $7,731 (December 31, 2004 - $7,731) in the form of a convertible subordinated debenture as described in note 11 to the Company's 2004 consolidated financial statements.

(d) At September 30, 2005, the Company was indebted to Hochtief for a total of $6,125 in the form of a short-term unsecured loan and is repayable no later than December 31, 2005. The loan was provided to support a portion of the Company's working capital contribution requirements to the Eastmain joint venture, the hydroelectric power house project in northern Quebec. The loan shall be repaid in Canadian funds and interest is to be paid monthly. Interest due is calculated on the amount outstanding at prime rate plus 1.5%. Interest expense recorded during the three months ended September 30, 2005 amounted to $99 and $109 in the nine months ended September 30, 2005.

(e) During the nine months ended September 30, 2005, the Company paid HCI $304 of interest and fees (2004 - $837) in connection with the convertible subordinated debenture and the stand-by facility in 2004.

(f) At September 30, 2005, the Company had a receivable of $Nil (December 31, 2004 - $290) from Hochtief PPP Solutions GmbH with respect to bid costs, pursuant to an arrangement in place for the sharing of such costs.

(g) An officer and director of the Company purchased $100, and a company controlled by a director and his wife purchased $600, and the wife of a director purchased $100 of the Company's $32,500 convertible debenture financing, which was completed on March 17, 2005.

(h) On July 21, 2004, the shareholders voted not to approve a proposed amalgamation that would have resulted in HCI holding all of the outstanding shares of the Company and taking the Company private. The Company incurred legal, valuation and related costs of $1,046 in connection with the proposed amalgamation. HCI has reimbursed the Company for $520 of these costs.

(in thousands of dollars, except per share amounts) (unaudited)

(i) During the three months ended September 30, 2005, the Company paid legal fees in the amount of $Nil (2004 - $26), and $160 during the nine months ended September 30, 2005 (2004 - $152) to a firm in which a director of the Company is a partner.

(j) During the three months ended September 30, 2005, the Company paid professional fees in the amount of $23 (2004 - $Nil), and $73 during the nine months ended September 30, 2005 (2004 - $25) to a consulting company in which a director of the Company is a partner.

(k) The Company's sale of its Footage Tools division, referred to in note 9 was made to a group that included employees of the Footage Tools division and an executive of the Company.

15. Contingencies

In June 2005, the joint venture involved in the construction of the Nathpa Jhakri Project in India, in which the Company has a 45% interest, was advised by the owner, Satluj Jal Vidyut Nigam Ltd. ("SJVN") (formerly Nathpa Jhakri Power Corporation Limited) of their intention to levy liquidated damages against the joint venture in the amount of $30,372 (at current exchange rates) for not completing the contract on time. However, since the delay in the completion of the project was caused by numerous items outside of the joint venture's control and contractual responsibility, including, among many other things, a catastrophic flood in 2002, the joint venture believes that these liquidated damages are unwarranted. The joint venture also believes that even in the unlikely situation that it was responsible for some part of the delay, this did not result in any damages to SJVN. The joint venture's conclusion regarding the impermissibility of SJVN to impose liquidated damages is supported by two independent legal opinions. Moreover, the joint venture has already submitted claims of approximately $87,629 (of which $9,535, at current exchange rates, had been previously received by the joint venture and is included in the joint venture's profit estimate for this project) against SJVN, the most significant of which is to cover the joint venture's costs of delays related to these same matters. Based on all of the above, no provision has been made for the liquidated damages, nor, in accordance with the Company's accounting policy, which is to recognize revenue from claims only when resolved, has any amount been recognized for potential recoveries under the claims.

The Company is a party to a lawsuit related to its prior involvement in the construction of a grain terminal in Gdansk, Poland whereby the Company guaranteed the payment of a promissory note for US$2,500. The note was originally due on July 12, 2001. As a result of certain alleged contractual breaches and misrepresentations by the other parties involved, the Company has refused to honour the guarantee. The lawsuit seeks to enforce the guarantee and other damages amounting to Canadian $5,300. The Company has recorded a liability for Canadian $3,000 related to this claim. The Company disputes the validity of the guarantee and the obligation to pay thereunder and is vigorously defending the litigation. The Company has filed a $30,000 counter claim alleging various grounds including misrepresentation and breach of contract. However, should the Company ultimately be found liable for the full amount of the guarantee and the counter claim not be successful, an additional amount of up to $2,300 could be payable in respect of exchange rate damages and interest. The Company believes it has a sound position to defend this claim and believes that the liability that it has recorded in its accounts should be sufficient to cover the net liability, if any, to the Company upon ultimate resolution of this litigation.

(in thousands of dollars, except per share amounts) (unaudited)

16. Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in the three months and nine months ended September 30, 2005.

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